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Foreword

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A theoretical framework for spending review policies at a time of widespread recession

by
Giuseppe Catalano *and* Angelo Erbacci*

The aim of this paper is to propose a first theoretical framework for medium term spending reviews that determines the main factors affecting the use of these spending reviews and their impact, at a time of widespread recession. As result, it identifies four dimensions (political, social, organisational and operational) and one dynamic element (time) that influence the performance of spending reviews and should be considered in approaching this tool. Finally this paper introduces some theoretical and policy considerations, concerning both how to effectively address the five elements that influence the spending review and how a government should design this tool.

JEL codes: H50, H61, H83

Keywords: Spending reviews, recession, performance budgeting, cutback management

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1. The emphasis on the spending review in times of widespread recession

Several years on from the onset of the financial crisis, many developed countries are still affected by huge problems of financial sustainability. Among the main difficulties that governments currently have to deal with are the reduction in public spending and the achievement of fiscal consolidation in a context of widespread recession. Several countries tried to address these challenges by implementing specific *spending reviews* as part of a broad strategy composed also by savings in the annual budget and a set of audit and accountability arrangements (Ferry and Eckersley 2011; 2012; 2015). The first cases of spending reviews date back to the 1990s, in particular, in Canada (1994), Australia (1995) and the UK (1998). However, in the years after the financial crisis, there has been a renewed interest in the use of spending reviews as strategic tool to reduce public expenditure by improving its efficiency and effectiveness (OECD 2011). The Greek government announcement in 2015 to use a spending review to drastically reduce public spending represents just the latest example of a country intending to adopt this tool to address a medium term strategy of fiscal consolidation.

Surprisingly, the existing evidence on the results achieved by this tool is quite scarce, and many policy makers actually doubt its final effectiveness in really attacking public spending and reaching financial sustainability. Moreover, this scarce evidence is supported by a general lack of research on the topic. Indeed, although spending reviews are largely catching on around the world, up until now there has been only an emerging research into this practice and there are only a few contributions that examine their use. Even in the practitioner domain, there is very little information on the issue, especially concerning the design features or performance achieved in a number of cases. In particular, what most surprises is that academic literature does not analyse the spending review into a conceptual perspective and, as a consequence, does not provide a specific theoretical framework that may help in understanding which are the main levers and factors that influence the final performance of a spending review.

This paper aims to embark upon filling this gap, and its objective is to *develop a first theoretical framework for the spending review*. In this perspective, it is important to define some preliminary boundaries of research. The paper focuses only on medium term spending reviews implemented after the 2008 financial crisis, i.e. on spending reviews implemented at times of cuts (e.g. austerity or at least challenging economic conditions) and clearly finalised to decrease public expenditure by addressing a strategy of short-medium term savings and cutbacks. This specification allows to avoid a possible misunderstanding (the use of spending reviews merely to direct spending on new priorities – as it was in many cases before the financial crisis) and to concentrate the research on the adoption of spending reviews as strategy of cutback management to address problems of fiscal consolidation in a context of widespread recession. Indeed, spending reviews could be (and sometimes are) also employed during better economic climates (e.g. in the UK the spending review was initially brought in during relatively good economic times by the New Labour government).

Achieving this objective is an opportunity in both academic and practitioner terms. In the academic environment, the paper will provide a first theoretical framework of reference for medium term spending reviews, thereby also making a theoretical advancement in literature. From a practitioner perspective, this theoretical framework will serve as a model to identify the elements that may have an influence over the implementation and final impact of medium term spending reviews, thus providing a first theoretical base that can be used by practitioners to direct the design of this tool.

In developing this theoretical framework, the paper involves a literature review, focusing, in particular, on the field of cutback management (Levin, 1978; 1979; Dunsire and Hood, 1989; Pandey, 2010; Bozeman, 2010). Recently some scholars have proposed a new interpretation of the spending review as a managerial tool related to the strategies of cutback management (e.g. Roberge, 2014; Agasisti et al., 2015).

The paper is organised into five sections: Section 2 tries to define the spending review and present the lack of detailed academic research on the topic; Section 3 presents the conceptual framework and the research methodology; Section 4 shows the results, while Section 5 discusses the findings and sets out the conclusions.

2. What is spending review? The lack of a clear definition

In common terms, spending review represents a process of budgeting revision consisting in an analytical evaluation of all the costs, investments and assets of a public organisation. This evaluation is finalised at identifying possible savings. Governments generally carry out this type of process in order to address problems of fiscal consolidation and public spending containment (medium term spending review) or to reprioritise public spending into a more effective composition (long term spending review). Spending reviews are part of a broader set of recovery interventions, composed also by the annual budget and some audit and accountability arrangements. While the spending review sets out a framework for expenditure levels over the medium term (Ferry and Eckersley, 2011), the annual budget translates this framework in more detailed policy choices, and the audit and accountability arrangements oversee the final impact and financial conformance (Ferry and Eckersley, 2012; 2015).

Despite the increasing popularity of this managerial tool, up until now there is not an official or theoretical definition of spending review. Monacelli and Pennisi (2011) generally described the spending review as a mix of institutional procedures related to the control of public spending. The same term "spending review" derives from the name of some governmental processes carried out in the United Kingdom by HM Treasury to reduce public spending and to define the key improvements of public services. However, in literature there is neither a detailed description of the elements that compose these processes nor a specific location for the topic. This fact may depend by the hybrid nature of the spending review. Indeed, it presents connections with several areas, such as cutback management, budgeting, public sector reforms and policy evaluation.

2.1. Looking its historical antecedents

1. The genesis of the spending review is firmly located within the universe of budgeting. As suggested by Monacelli and Pennisi (2011), during the last 60 years in the field of public sector budgeting there have been significant innovations that may help in understanding how this tool was created and shaped.

The introduction of *Performance Budgeting* in the 50s was the first step toward the spending review. This instrument represented the transformation from an input and output orientation to an output and outcomes orientation (Andrews and Hill, 2003). Indeed, performance budgeting introduced a novel approach, by providing information regarding the performance of the different expenditure programmes and by relating them to specific objectives previously planned. In this way, the budget was used as an allocative process, based on the definition of goals and the evaluation of the performance produced.

A second attempt to strengthen the connection between the performances of policy programmes and the budgeting allocations was the introduction of the *Planning-Programming-Budgeting System* (PPBS). This budgeting process systematically examined the policy objectives and programmes in order to determine the most effective allocation of available resources. Differently from performance budgeting, in PPBS there was a strong focus on the allocative function of the budget, involving also some analytical methodologies for determining the best allocation of resources and for measuring the extent to which each objective was met.

During the 70s many countries developed new procedures of budgeting, trying to integrate the approach toward the evaluation of spending (already introduced by the PPBS and performance budgeting) within a new global framework of spending containment. One important innovation was the advent of the *Zero-Based Budgeting* system (ZBB) defined as a budgeting procedure requiring that each budget allocation should be re-evaluated thoroughly, starting from the zero-base (e.g. Sarant, 1978; Lynch, 1995). The advent of this system reversed the traditional budgeting process by requiring that each line item of the budget should be approved. On the contrary, in the traditional budgeting procedure (incremental approach) only new spending proposals had to be justified, while the baseline expenditures were automatically approved. ZBB represented a clear discontinuity from the incremental budgeting approach.

A similar innovation was the *Expenditure Management System* (EMS) introduced at the beginning of the eighties (Aucoin, 1990). Similar to ZBB, EMS required a yearly evaluation of the whole budgeting allocations. However, this system had stronger political participation, since each minister took part at the budgeting decision process in order to define the specific budgeting ceilings for each ministry. The EMS is the budgeting tool most related to spending reviews.

2.2. The emerging research on spending review

The theme of the use of spending reviews has met with relatively little interest in the academic debate and, up until now, only emerging research has investigated this issue. Despite this, looking at what has been written about spending reviews, two main areas of literature can be identified: i) works that analyse spending reviews as a case study; ii) works that analyse the use of spending reviews as the main object of research.

The first area contains some works that basically describe the experience of using spending reviews in specific countries or sectors. Here, the spending review is not the principal phenomenon under investigation, but is rather a case study through which other issues are generally investigated. For instance, some authors have analysed cases of spending reviews to determine where most cuts took place in times of austerity (e.g. Chote et al., 2004; Ferry and Eckersley, 2011; Niemietz, 2011). Similarly, other works have studied the impact of spending reviews on social issues, such as the spending on welfare (e.g. Horton and Reed, 2010; Browne and Levell, 2010; Berry and Sinclair, 2010; Yeates et al., 2011).

The second area of literature contains works that directly investigate the spending review as a managerial process. Different from the previous group, the use of spending reviews is the main phenomenon of investigation. Lapsley and Midwinter (2010) analyse the process of the UK spending review, concluding that it is close to the practices of New Public Management (Hood, 1991; 1995; Barzelay 2001). For the authors, spending review represents a process that identifies the possible areas of intervention and the actions needed to contain public spending, by evaluating spending through the general concept of efficiency. In a similar perspective, other works analyse specific spending review cases focusing on their managerial processes (e.g. Bourgon, 2009; Monacelli and Pennisi, 2010; Arena and Arnaboldi, 2013; Agasisti et al., 2015) propose a preliminary taxonomy that identifies the main features characterising different spending review models and connect the spending review to the literature of cutback management (Levine, 1978; 1979; Levine et al., 1981; Dunsire and Hood, 1989; Bozeman, 2010; Pollitt, 2010). Differently from the previous area of litareture however, few works compose this second group and only recently has this line of research is emerged.

2.3. The link with literature on cutback management

An emerging interpretation of spending review (i.e. Roberge, 2014; Agasisti et al., 2015) suggests that the area of literature mainly related to this tool is that of *cutback management* (e.g. Levine, 1978; Bozeman, 2010; Pollitt, 2010). Cutback management can be defined as the special purpose initiatives to lead *"organizational change toward lower levels of resource consumption and organizational activity"* (Levine, 1979, 180). Essentially, this area of literature proposes approaches and reactive strategies to address organisational decline. There are many links between this stream of literature and the topic of spending reviews. The first connection is the way in which both spending reviews and cutback management regard the issue of fiscal retrenchment. Indeed, the literature on cutback management focuses on organisational decline that can be defined as a situation involving restricted resources and pressures to cut back (Cameron et al., 1987). Similarly, this paper covers only medium term spending reviews implemented at a time of widespread recession, i.e. under a situation of decline and austerity. The second link concerns their scope. Both literature on cutback management and the subject of spending reviews as a tool exclusively address public organisations. Finally, the third connection is the fact that both spending reviews and cutback management are currently undergoing a new vitality. Indeed, as presented in Section 1, after the financial crisis there has been a new emphasis on the use of spending reviews and, at the same time, cutback management literature has found a new lease of life (see Section 4.1. for further details).

Although both issues (cutback management and spending review) have many similarities, it is, nevertheless, important to note that spending reviews may be broader in scope. While cutback management is, in general, directed toward decreasing expenditure, a spending review may introduce different types of interventions (not just spending cuts), even increasing spending in specific areas or strategic sectors. This is, for instance, what happened in the UK during the 2004 spending review. However, the choice of the paper to focus exclusively on medium term spending reviews explicitly implemented to address problems of fiscal consolidation at a time of widespread recession removes this inconsistency and allows adopting this field of literature as a main reference.

3. Conceptual framework and research methodology

In order to set a theoretical framework for the spending review, it is essential to define a primary definition of spending review and to relate it to the literature on cutback management. In this way, it will be possible to use the main insights from this literature to develop the theoretical framework. Since academic literature does not provide an official and shared definition of spending review, the paper looks at how this tool is described in the practitioner domain. The clearest picture emerges from the discussion papers published by the Organisation for Economic Co-operation and Development (OECD). These papers are working reports that describe the empirical experience of some OECD countries in using spending reviews. In particular, in the OECD reports, a spending review is defined as an analysis of evaluation commissioned *ex ante*, having the specific objective of identifying budget savings. In these reports, the spending review's most distinctive feature is its focus on identifying and extracting non-linear savings through an *ex ante* analysis of evaluation.

This paper adopts the OECD definition of spending reviews as a base assumption:

The spending review is an analysis of evaluation, commissioned ex ante*, with the objective to identify and extract non-linear savings through the budget process (OECD 2011)*.

In order to develop a theoretical framework for the spending review, the paper performs a review of the literature on cutback management. The boundaries of the literature review are briefly described here:

- Inclusion of all the public administration literature on cutback management, comprising both the early public administration literature of the 70s and 80s focusing on the topic (e.g. Levine, 1978; 1979; Behn, 1978; Levine et al., 1981) and the contemporary public administration literature on cutback management, especially the papers published after the 2008 financial crisis (e.g. Dougherty and Klase, 2009; Pandey, 2010; Bozeman, 2010; Pollitt, 2010);
- Exclusion of the managerial literature on organisational decline (this literature mainly covers the area of private sector organisations); indeed, following Pandey (2010), the paper focuses only on the concept of "publicness", i.e. cutback management literature referred to public organisations.

In terms of research process, the first phase was the identification of all the papers within these boundaries of investigation. The second phase was the examination of the selected papers and the identification of the main insights relating to the base assumption previously defined.

4. Results

4.1. Research on cutback management

The literature on cutback management can be defined as the science that researches managerial strategies for public organisations to deal with the situation of organisational decline and fiscal retrenchment. Over the years, this area of literature has gone through two separate periods of growth. The first period – *early literature* – started at the end of the 1970s with the influential contributions of Levine and his colleagues (Levine, 1978; Levine, 1979; Levine et al., 1981) and lasted up to the mid-1990s. During this time, the stream of research covered several aspects of analysis, such as leadership tactics for managing decline (e.g. Behn, 1980; Biller, 1980), budgeting (e.g. Else and Marshal, 1981; Behn, 1985) and programme termination (e.g. Behn, 1978; Brewer, 1978; deLeon, 1982). The second period occurred in the 2000s – *contemporary literature*. After the 2008 financial crisis, in particular, cutback management literature has experienced a sort of renewal, with several authors proposing extensions to or reinterpretations of the early literature (e.g. Pandey, 2010; Bozeman, 2010; Pollitt, 2010).

Charles Levine was the first scholar who explicitly introduced the problem of cutback management. He was totally persuaded by the fact that a new field had to be developed in public sector literature to analyse methods and strategies for managing organisations in times of decline. According to this perspective, Levine developed a sort of catalogue of the different causes that generate organisational decline. The first cause – political vulnerability – refers to the internal political fragility of an organisation that hinders its capacity to resist budget decrements and environmental transformations. Organizational atrophy, on the contrary, refers to the presence of organisational inefficiencies that reduce the whole performance of the organisation undermining its survival capacity. Problem depletion, instead, occurs as a product of external forces (such as natural disasters, demographic shifts, a change in the market's needs, etc.) that produce shocks beyond the control of the organisation. Finally, the last cause – environmental entropy – happens when public organisations produce a level of activities (services or goods) over the economic and financial capacity of their environments. For instance, this occurs when a market crisis reduces the financial capacity of its district to sustain public organisations with tax incomes. Some of the Levine's causes are clearly identifiable in the current context of recession, such as the explosion of the US *sub-prime* crisis (environmental entropy), the managerial backwardness of some public sectors (organisational atrophy) and a widespread political instability, especially in the Eurozone where many governments have to deal with the growth of populist and anti-establishment movements (political vulnerability). These relationships reinforce the link between cutback management literature and the topic of medium term spending reviews.

4.2. Alternative strategies to address decline

In his main work, Levine (1978) suggests that organisations, which decide to address decline, must deal with several strategic choices, especially in terms of defining the way to operate cuts. Levine talks about the presence of a trade-off between different approaches: "equity" and "efficiency". If the organisation bases its cutback strategy on "efficiency", it mainly decreases spending in the less efficient programmes/units in order to avoid damaging the general productivity. On the other hand, if the organisation bases its cutbacks on "equity", it makes cuts equally across all its programmes/units. The presence of this trade-off is highly stressed in cutback management literature. Glassberg (1978) proposes a similar distinction between "incremental" (small linear interventions) and "quantum" cuts (selected savings targeting specific programmes/units). Hartley (1981) talks about "equal misery" and "selective cuts"; others use terms such as "across-the-board cuts" and "targeted cuts" (e.g. Levine, 1979; Levine et al., 1981; Schick, 1992; Bartle, 1996; Dougherty and Klase, 2009; Pollitt, 2010; Cepiku and Bonomi Savignon, 2012). Summarising these different definitions, it is possible to outline the alternative strategies as *linear approach* and *selective approach*.

Even if literature generally tends to support the selective approach, by underscoring the intuitive advantage of applying cuts only to the inefficient areas of the organisation (Levine, 1978; Glassberg, 1978; Dunsire and Hood, 1989; Berne and Stiefel, 1993; Bartle, 1996) evidence demonstrates that, in situations of decline, public organisations prefer to adopt linear approaches in addressing cuts (e.g. Lewis, 1984; Schick, 1992; Braun et al., 1993; Bartle, 1996). Hood and Wright (1981) suggests that this happens because the selective approach requires an initial work of analysis (examination that the authors define "*searching review*") necessary to assess all the programmes of the organisation and support the implementation of selective cuts. For the above authors, this examination may result both problematic and costly. Other authors suggest that the savings made through a selective approach need to be developed *ex ante* and that this may require time (e.g. Levine, 1985; Austin, 1994). On the contrary, less time is needed to implement a linear approach, especially when the selective approach involves complex interventions such as layoffs or the closure of units and programmes (Greenwood et al., 1980; Garrett, 1980).

4.3. Approaching the spending review as a tool of cutback management

According to contemporary cutback management literature, the difficulties in implementing a selective strategy to address cutbacks depend on a lack of information about the performance of public organisations (Caiden, 2010; Cepiku and Bonomi Savignon, 2012). Jõgiste et al. (2012) show that linear savings are generally chosen because of the lack of a managerial process such as the spending review. In this perspective, the relationship between spending reviews and cutback management clearly emerges. Public organisations need to apply a managerial process (such as a spending review) to carry out a selective strategy.

The base assumption of this paper describes spending review as an *ex ante* analysis of evaluation with the aim of identifying and extracting non-linear savings. This definition is closely related to the selective approach of cutback management. Indeed, the identification of non-linear savings is a core element of the selective approach. Moreover, the *ex ante* analysis of evaluation, that a spending review performs, represents the process of research (stressed strongly in cutback management literature) required in a selective approach to target the areas on which operating and introducing the cuts. According to this perspective, many authors have indirectly introduced a conceptual definition of spending review. Hood and Wright (1981) talked about a *"searching review"*, which is central to the selective approach to cutback management. Pollitt (2010), talking about the selective approach, suggested that organisations need to develop decision-making procedures that allow spending to be prioritised.

The medium term spending review can therefore be definitely located within the literature on cutback management, representing a managerial process (an *ex ante* analysis of evaluation) that organisations can adopt to carry out a selective approach to address decline.

4.4. Factors affecting cutback management strategies

Following the connection between the spending review and the selective approach to cutback management, it is possible to look at what, in literature, are the factors and dynamics that influence cutback management strategies and their achievement.

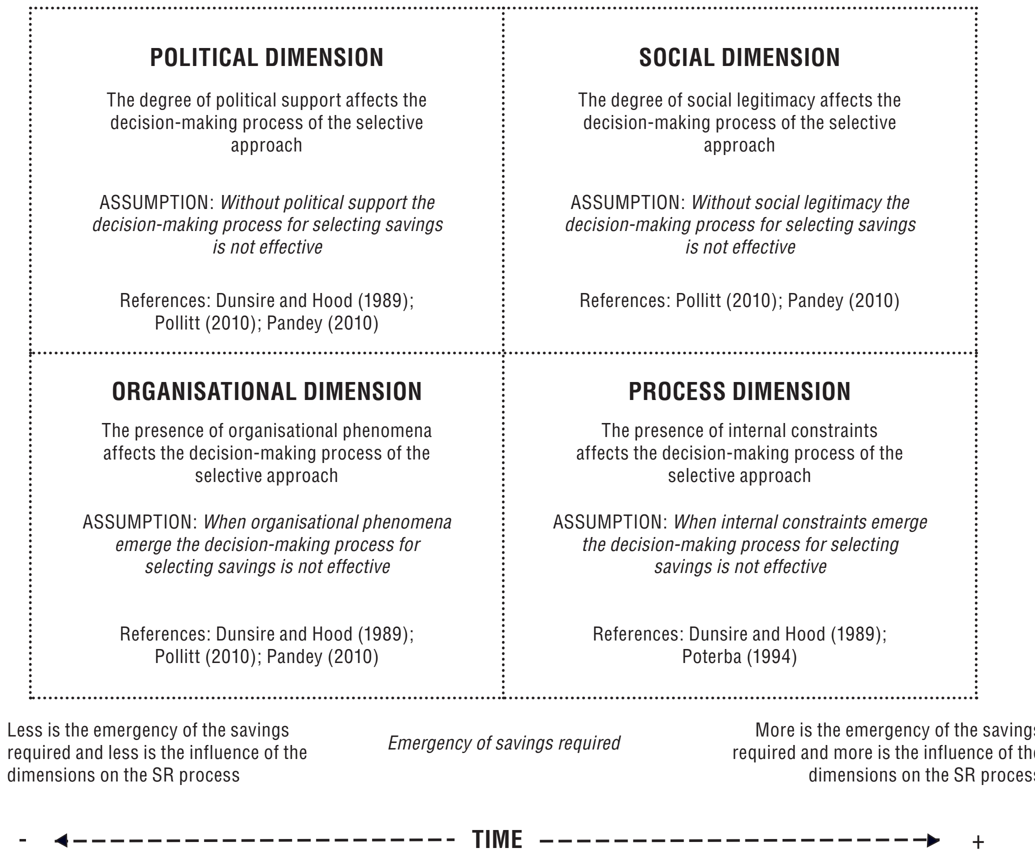
In cutback management literature, the most complete study that addresses this theme is a model proposed by Dunsire and Hood (1989). Pollitt (2010) also adopts this model. The authors identify four different dimensions (which they call "explanations") that affect how cutback management strategies are defined for a public organisation. The first dimension – *party political explanation* – sets out the idea that a particular political ideology central to a government party (or coalition) can affect the actions to be undertaken in implementing cutbacks. In their analysis, the authors investigated different economic models that can predict these dynamics (e.g. Hotelling, 1929; Downs, 1957; Finer, 1975), concluding that the Political-Business Cycle model (Nordhaus, 1975; Pommerehne and Schneider, 1983) is the best predictive model. For the authors, government parties will adopt a strategy of cutback management as closely linked as possible to their political credo, apart from during the periods running up to elections, when they will tend to adopt more popular strategies. The second dimension – *trend explanation* – looks at the trends (economical, demographical, societal, etc.) that can possibly influence strategic choices made during cutback management. The authors find evidence that, during periods of decline, organisations tend to concentrate interventions (savings and cuts) to areas with a history of growth. The third dimension – *bureaucratic self-interest explanation* – looks at the role of bureaucrats (highly ranked public sector managers) in affecting cutback management strategies. The authors compare two different images of the public manager: the traditional Weberian view (bureaucrats are highly skilled and experienced managers who act for the wealth of the organisation) and the economics-based Smithian view (bureaucrats are "economic men" who act to maximise their own profit). They find evidence that the Weberian view is more predictive, although they still tend to support the Smithian view, concluding that more research is needed to test its validity. Finally, the fourth dimension – *bureaucratic process explanation* – examines how the internal features of an organisation impact on the way cutback management strategies are defined. The authors investigate different models (e.g. Klein, 1976; Jørgensen, 1985), concluding that organisations tend to concentrate savings and cuts in their most vulnerable programmes/units.

Pollitt (2010), in proposing a reinterpretation of this model in the light of the 2008 financial crisis, identifies four elements that affect the way cutback management strategies are defined. The first element is *time* and it acts against adopting selective approaches. Indeed, for the author, the governments that must implement immediate and urgent savings (especially to balance their budgets) tend to adopt a linear approach because it is both easier and cheaper (especially in terms of its capacity of producing immediate savings) than the selective approach, which requires an *ex ante* process of evaluation. The second element is the *ethics* of the cuts. It refers to the idea that each cut produces an impact (which is more or less significant in terms of ethics) on the population. Therefore, in defining cutback management interventions, countries tend to avoid imposing savings with a high ethical impact. The third element is that of *strategy and communication*. Here, the author observes that defining a cutback management strategy also requires convincing parliaments and public servants that the strategy makes sense. This is very significant for overcoming possible internal resistance (direct resistance of public servants) and external pressure (indirect resistance of politicians). Therefore, for the author, the way cutback management strategy is communicated is a central issue. Finally, the fourth element is *legitimacy*. It means that both internal (from public servants) and external (from society) legitimacy is needed to put in place a well-thought out cutback management strategy. Pandey (2010) offers a similar view on the factors that affect cutback management in public organisations, proposing his interpretation of the concept of *publicness* in cutback management. The author is convinced that the difficulties faced by public organisations in implementing cutback management strategies lie in their very nature of being public entities. According to publicness theory (Bozeman, 1984; 1987; Coursey and Bozeman, 1990; Rainey, 2009), the distinctive character of public organisations comes from the influence inflicted on them by their external political environment. On the other hand, Poterba (1994) supports the idea that cutback management strategies are mainly influenced by regulatory constraints within the organisation. The organisation will, therefore, consider these restrictions when defining its strategy.

4.5. *A first theoretical framework for medium term spending reviews*

By comparing the ideas collected in literature, it is possible to identify four dimensions (*political*, *social*, *organisational* and *process*) and a transversal dynamic element (*time*) as factors that affect cutback management in public organisations. These elements compose the theoretical framework for medium term spending reviews (Figure 1).

Figure 1. **Theoretical framework for the spending review**



Source: Authors' own elaboration.

The first dimension – *political* – represents an adaptation of the political party-based explanation (Dunsire and Hood, 1989), of the concept of ethics (Pollitt 2010) and the idea of publicness (Pandey 2010; Bozeman 2010). Basically, it refers to the idea that the decision-making process to define a spending review requires strong political support to be realised effectively. Empirical research shows that, without this strong political support, the spending review decision-maker is not able to undertake decisions with a high impact on the public, especially decisions with strong social impact (e.g. Cepiku and Bonomi Savignon, 2012; Catalano and Erbacci, 2013). For instance, in order to ensure political commitment, the Italian spending review in 2012 was co-ordinated by the Prime Minister with the support of the Minister for Parliamentary Relations (Arena and Arnaboldi, 2013).

The second dimension – *social* – takes inspiration from the idea of legitimisation (Pollitt, 2010) and the concept of publicness (Pandey, 2010; Bozeman, 2010). According to Pollitt's view, without strong social legitimisation the decision-making process of the spending review is ineffective since the decision-maker does not have sufficient strength to take unpopular decisions, such as selective cuts. Diamond (2013) suggests that the spending review should be transparent, allowing grater scope for participative decision making and consultation. Similarly, Arena and Arnaboldi (2013) highlight that when the spending review is urgent it necessitates high support from the public.

The third dimension – *organisational* – is an adaptation of the bureaucratic self-interest (Dunsire and Hood, 1989) and the concepts of publicness (Pandey, 2010; Bozeman, 2010) and strategy communication (Pollitt, 2010). When certain organisational phenomena take place, the decision-making process of the spending review tends to be ineffective. These organisational phenomena refer to particular situations, such as the fragmentation of the leaders' objectives and rationalities (e.g. Pettigrew, 1973; Van Wart, 2003), the occurrence of resistance to change (Kotter and Schlesinger, 1979; Ajzen, 1991; Kotter, 1996) or other organisational issues. For instance, Marra (2013) shows that, thanks to coercive and professional isomorphism (Powell and DiMaggio, 1991), the Italian spending review in 2012 put emphasis back on expenditures rather than on performance and outcomes, thus rendering it ineffective. Moreover, the author suggests that the presence of bureaucratic barriers precluded the acceptance and use of spending review recommendation across ministries and agencies.

Finally, the fourth dimension – *process* – refers to the idea that some internal constraints within the organisation can affect the decision-making process of a spending review. This dimension is built upon the ideas of Poterba (1994) and Dunsire and Hood (1989). It refers to the presence of regulatory and operational problems (McTighe, 1979; Armenakis and Bedeian, 1999).

Concerning *time,* the framework refers to Pollitt's view of time as an element that influences cutback management strategies. Time represents a "transversal dynamic element" since it may simultaneously affect each dimension of the framework. Specifically, time influences the effective implantation and use of medium term spending reviews by increasing the pressure of the four dimensions. For instance, the less time there is to carry out a spending review, the more difficulties and problems arise in effectively controlling political and organisational pressures. This intuition complies with the literature on cutback management that suggests that the selective approach to cutback management is difficult to be achieved when time is limited (Levine, 1978; Hood and Wright, 1981; Bartle, 1996). In this perspective, time can be seen as a factor representing the urgency of the savings required.

5. Discussion and concluding remarks

The present work has developed a theoretical framework for medium term spending reviews, by looking at the main insights of cutback management literature. More specifically, by relating the spending review and the selective approach to cutback management, the paper has identified four dimensions (*political*, *social*, *organisational* and *process*) and a transversal dynamic element (*time*) which affect the use of this instrument.

As a matter of fact, this work has some limitations especially the lack of empirical research confirming the results from literature. On the other hand, this paper has proposed a first view on how a medium term spending review can be approached by identifying five elements that influence its process and final impact. While these elements could appear quite common and generally applicable for each type of innovation/reform to be introduced in a public environment, they represent a first starting point to analyse medium term spending review. Moreover, by recognising the influence of these factors on this type of spending review, the paper makes an indirect suggestion about some of the elements that must be kept in mind by academics and policy-makers when approaching and using this tool.

Looking at a theoretical perspective, the conceptual intuition of this paper is the connection between medium term spending reviews and the literature on cutback management, and the consequent development of a theoretical framework based on this literature. However, this framework builds on some important insights from other streams of literature. Neo-institutional theory (i.e. Mayer and Rowan, 1977; Powell and DiMaggio, 1991) suggests that change is imposed and shaped by the organisation's actions. On the contrary, the literature on organisational change management (i.e. Buchanan et al., 2005; Fernandez and Rainey, 2006; Kickert, 2010) affirms that a change is generated by the intentional actions of the agents involved in the change. Recently some scholars have pointed out that these opposite approaches may result as contemporary rather than incompatible views (i.e. Modell et al., 2007; Lounsbury, 2008; Azzone and Palermo, 2011). In a similar perspective, the theoretical framework developed in this paper relates together elements belonging to these different approaches, thus suggesting that they can contemporarily influence the spending review process.

In terms of policy implications, there are several aspects that should be considered in designing a spending review. First, looking at the *social dimension* and the problem of legitimisation, the theoretical framework suggests that the decision-making process of a medium term spending review should have sufficient social legitimisation to take unpopular decisions. One practical consequence, in terms of design, may be the use of stakeholder engagement practices (e.g. Alford, 1998; Rowe and Frewer, 2005). These types of practices are largely spreading across governments (OECD 2015) and some spending review experiences have adopted similar processes (e.g. the spending review implemented by the Italian government in 2012 adopted a specific public consultation process). Similarly, the theoretical framework points out that the presence of internal constraints (*process dimension*) may reduce the scope of the spending review. Normative constraints can be addressed by developing a regulatory review in parallel with the spending review process (e.g. since 1998 the UK HM Treasury spending reviews were done in parallel with specific regulatory reviews implemented by the Cabinet Office; surprisingly, this double process was de-coupled in the Comprehensive Spending Review implemented in 2010). Internal and external resistance to change (*organisational dimension*) can otherwise be softened by adopting certain organisational practices (Ford and Ford, 2010) or by clearly defining the leadership of the process. The theoretical framework suggests also that without political support the spending review is unable to take critical decisions, such as the cuts on welfare (*political dimension*). To ensure high political commitment and support, the spending review should be designed to include a strong relationship with the higher political hierarchies, such as the Prime Minister or the Minister of Finance (OECD 2011). Finally, through the *dynamics of time,* policy-makers are advised to make a proper evaluation of the time requirements for carrying out a spending review. Probably, when time constraints to achieve consolidation are heavily pressing, a strategy of linear savings should be preferable.

These considerations need detailed empirical research in order to be tested. This will define the future research agenda and, in particular, specific studies for each of the four dimensions of the theoretical framework will be carried out, including researches based on qualitative case studies. Detailed research will focus also on the investigation of the relationships that link the dynamic element of time with the four dimensions of the theoretical framework.

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Financing and budgeting practices for health in Peru

by
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Peru has made substantial progress towards achieving UHC. Increases in access to healthcare and financial protection had a positive impact in health outcomes. Despite this progress, major efforts are needed to reduce fragmentation and increase efficiency in the health system as a whole. Creating formal coordination mechanisms and improving capacity at the subnational level are key elements to ensure that any additional resource spent has a great positive impact in Peru's health care system. The well-developed and highly institutionalised PPR methodology in Peru can inspire other countries in the LAC region. However, other budgetary practices could be better aligned with OECD recommendations of good budgetary governance. In particular, making the approved budget closer to what is expected to be executed would greatly increase the usefulness of the budget, showing how resources are prioritised and how annual policy objectives are to be achieved.

JEL codes: H5, H60, I11, I18

Keywords: Universal health coverage UHC, Peru, health expenditures, budget formulation, budget execution, budget monitoring, fiscal sustainability of health systems

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Introduction

Financing healthcare and ensuring the long term sustainability of healthcare expenditure is a shared challenge both for OECD, middle and lower middle income countries (LMICs). Effective dialogue and co-operation between health and finance ministries will be critical to ensure fiscal sustainability while, at the same time, delivering the results that the public expects.

In order to contribute to this objective, in 2011, the OECD established the OECD Joint Network of Health and Budget Officials on the Fiscal Sustainability of Health Systems (Joint Network). This network aims to identify and disseminate good practices in managing the budget of the health sector, and promotes institutional dialogue around objectives, clarity of roles, and a shared vocabulary between all actors involved. In 2013, the OECD expanded the activities of the Joint Network in non-OECD countries, in partnership with the WHO, the Global Fund to Fight AIDS, Tuberculosis and Malaria (The Global Fund), CABRI, the IDB, and the ADB, with the main objective of good budgeting and public financial management practices in countries for achieving Universal Health Coverage (UHC). As part of this programme, the OECD is carrying out regional surveys to highlight trends, practices and challenges, regional meetings to facilitate a policy dialog between health and finance officials, and case studies to understand the main challenges and identify good practices which could be shared with other countries.

For Peru a key challenge is to meet the goal of providing universal health coverage by 2021. The main objective of this report is to carry out an in-depth review of public health financing and budgeting practices in Peru, provide analysis on specific policy aspects which may affect sustainability of programmes and to provide recommendations, based on experience from OECD countries, on how to mitigate these risks. In preparation for the mission, in January 2016 the OECD sent a questionnaire to collect background information and identify key areas of analysis. An OECD team visited Lima in March 2016 and held extensive interviews with state and regional stakeholders involved in the budget process for health. Additional meetings and conference calls were carried out with international co-operation agencies and remote health regional offices.

This report is structured into four main parts. Section 1 analyses the core characteristics of the Peruvian health care system. This section includes a description of key achievements in universal health coverage (UHC), a general overview of the institutional framework, and a description of the main health financing arrangements and key actors in health financing and provision. Section 2 provides a deeper look into health financing arrangements today, and how health expenditures in Peru compare with other countries. Section 3 and 4 then provide a closer look at public financial management arrangements and the budgeting process for health in Peru. Strengths and weaknesses of budget formulation, execution and monitoring for government healthcare spending are outlined. Finally, Section 5 provides conclusions and overall policy recommendations.

Summary of main findings and recommendations

Peru has made important progress towards universal health coverage (UHC), a core national development target set for the year 2021 (Strategic National development Plan: *Plan Bicentenario, 2010*). Such progress, combined with steady economic growth, has translated into increased access and financial protection in the system, and contributed to better health outcomes (e.g. infant mortality per 1 000 live births fell from 56 to 13 and life expectancy increased 10 years between 1990 and 2015). The population declaring some type of health insurance grew from 37.3% in 2004 to 72.9% in 2015 (ENAHO, *Encuesta Nacional de Hogares*). Despite this great progress, Peru is still slightly below the Latin-American and Caribbean (LAC) average in several health outcomes indicators, showing that there is still room for improvement in the process towards achieving UHC.

One of the key characteristics of Peru's health system is its fragmentation, both in terms of financing and service delivery. Since their creation, the social health insurance and the publicly funded system have developed in separated ways, covering different groups of the population, providing dissimilar levels of coverage and having separate provision networks. Furthermore, there is little communication between the subsectors, losing opportunities to learn from each other and create synergies. There have been a few attempts to start breaking this gap, for example through an exchange of services between the public and the social health insurance hospital networks, and a centralisation of procurement practices. However, the extent of these initiatives is very limited. Fragmentation is also costly in terms of time and resources spent to comply with the bureaucratic requirements that come from each system. Overcoming fragmentation and improving co-ordination is a key challenge to increased health expenditure efficiency and a more equitable health system in Peru.

Another factor that has shaped health care financing and provision in Peru is the rapid but imperfect decentralisation process, implemented in the first decade of the millennium. This unguided decentralisation process has led to a lack of co-ordination between central and regional governments in support of improved health outcomes. Today, it is recognised that many regional governments still have insufficient capacity to implement the national health policy and achieve their targets. In addition, heavy bureaucratic procedures further impair health service provision. A re-centralisation trend is therefore under way, both in terms of policy execution and in terms of funding. This has increased control over health expenditure at the subnational level, but has also reduced flexibility in the execution of resources. Strengthening strategic co-ordinating committees and partnership groups between MINSA, SIS and the regional health offices can improve communication and dialogue on subjects of common interest. In addition, Peru could envision the creation of a task force which could operate in the regions to support planning and budgeting and develop capacity in the long run.

Finally, some budgetary practices could be better aligned with OECD recommendations of good budgetary governance. In particular, the initial budget approved by Congress does not fully reflect how funds are going to be spent, but rather, which institution is responsible for deciding upon the allocation and monitoring of the funds during the budget year. Constant changes in the budget throughout the year makes planning, programming and budget execution difficult for regional and local governments, who are not always able to spend the total amount of resources allocated. Making the approved budget closer to what is expected to be executed would greatly increase the usefulness of the budget, showing how resources are prioritised and how annual policy objectives are to be achieved.

Despite the challenges mentioned before, promising initiatives have been developed in recent years, improving programming and budgeting practices in the sector. In 2007, Peru began implementing results-based budgeting *(Presupuesto por Resultados* – PPR), shifting the public sector towards a results-based management, which starts in the budgeting process and is sustained by the commitment to reach specific goals. To determine budgetary needs, PPR now concentrate on providing resources based on the input-mix necessary for these goals to be achieved, using evidence on what interventions work. This means using all the information available to determine the needs in inputs such as drugs, human resources, and capital goods to achieve a clear objective. Budget management has also advanced significantly towards maintaining an up-to-date and transparent record of public resources, with information tools – such as the integrated financial management system (SIAF) and the administrative management information system (SIGA) – that improve the efficiency of public administration.

1. Core characteristics of Peru's health system

1.1. Achievements on UHC: Peru compared with other LAC countries

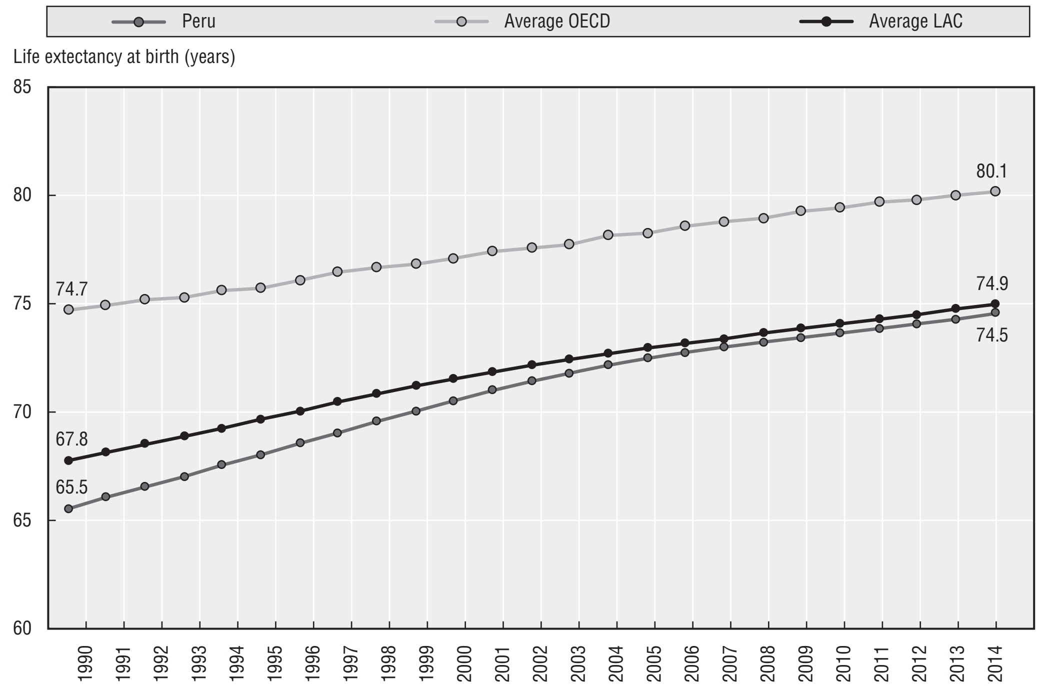
According to the 2010strategic plan for national development (*Plan Estratégico de Desarrollo Nacional: Plan Bicentenario: El Perúhacia el 2021*), the government aims to achieve universal health coverage (UHC) by 2021, but Peru has already made important progress towards UHC. The Universal Health Insurance Law (*Ley de Aseguramiento Universal en Salud* AUS) enacted in 2009, the commitment to the Millennium Development Goals and the Sustainable Development Goals, the National Agreement, the health reform of 2009, social sector programmes (i.e. *Juntos*), and economic growth fostered by sound macroeconomic policies have contributed to progress towards UHC. Economic growth during the past decade translated into higher public revenues for the country's healthcare system as well as families' income. Health sector reforms also expanded insurance coverage. As a result, access to health services has increased, the quality and scope of the health system has developed, and health outcomes have also improved.

Progress towards UHC has contributed to better health outcomes. Neonatal mortality rate decreased from 28 per 1 000 live births in 1990 to 8 in 2015, which is associated with an increase in the proportion of deliveries attended by skilled health staff. In a similar way, infant mortality (per 1 000 live births) fell from 56 in 1990 to 13 in 2015, and under-five mortality (per 1 000 live births) had the largest decrease from 80 in 1990 to 17 in 2015. Immunisation coverage has positively influenced these achievements. Life expectancy also increased 10 years during this period, reaching 74.5 in 2014 (Figure 1). Despite this great progress, Peru is still slightly below the LAC average in most health outcomes indicators, which shows that there is still space for improvement in the process towards achieving UHC.

1.1.1. Access to health care, financial protection and service coverage

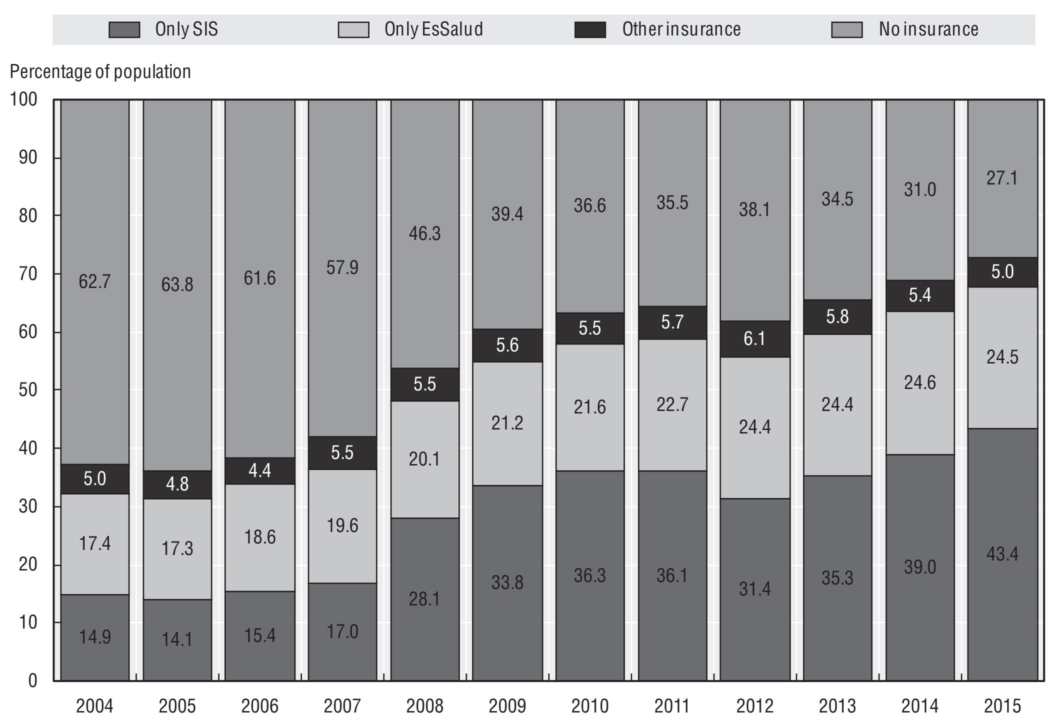
Peru has made a remarkable effort to increase health care coverage in the last decade. According to the National Household Survey (ENAHO, *Encuesta Nacional de Hogares*), population reporting to have some type of health insurance grew from 37.3% in 2004 to 72.9% in 2015 (Figure 2). Figures reported by the National Health Superintendence based on registrations with a unique identifier are even higher, reaching 80.6% in 2015.[1] The Integral Health Insurance (*Seguro Integral de Salud* SIS) has been the key instrument behind this expansion. Since 2008, it is the main insurer in Peru, reaching 43.4% of the population in 2015.

Figure 1. **Life expectancy at birth (years), 1990-2014**



Source: World Bank (2016).

Figure 2. **Health insurance coverage (2004-15)**

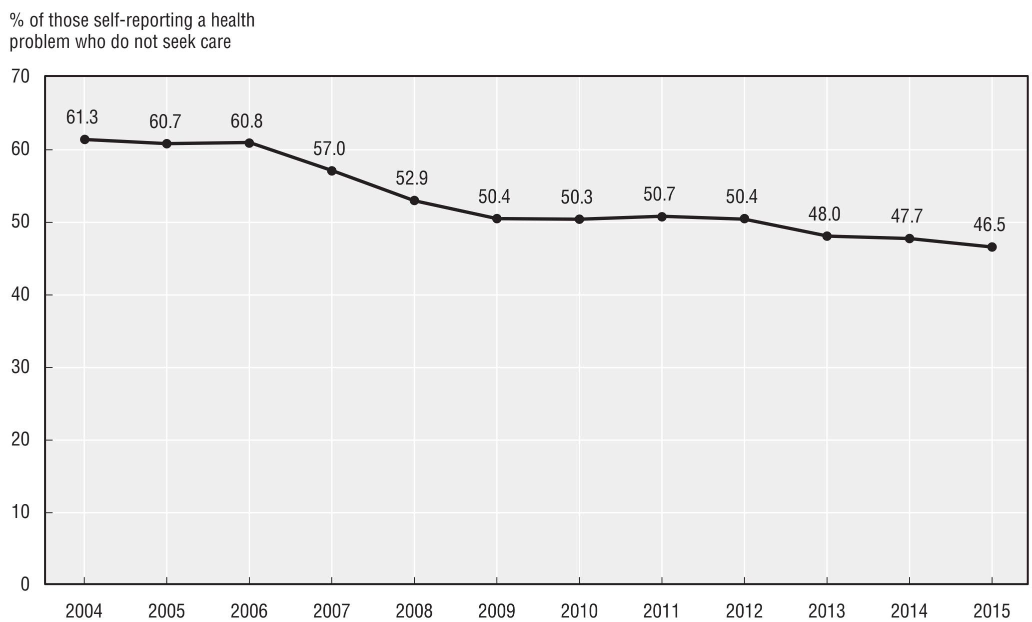


Note: Other insurance includes, population with more than one insurance, private insurance, prepaid schemes.
Source: INEI (2016).

EsSalud has grown but at a slower pace, and in 2015 reached 24.5% of the population. The private sector, represented as "other insurance" in the figure, remains small at 5%.

Health care reforms and economic growth translated into increased access to health care and increased financial protection in the system. The percentage of people who self-reported a health problem and did not seek care has considerably decreased in the past 10 years (Figure 3). In a similar way, the percentage of people who reported "not having money" as a reason for not seeking healthcare decreased from 25% in 2005 to less than 7% in 2015 (Figure 4), showing that financial constraints is no longer a major barrier to access health care. In spite of the rapid expansion of health insurance coverage, there has only been a small reduction in out-of-pocket expenditure as a percentage of total health expenditure, moving from 35% in 2004 to 29% in 2014. It remains slightly above the regional average and it is still the largest source of health care financing.

Figure 3. **Population with self-reported health problems not seeking care (2004-15)**



Source: INEI (2015).

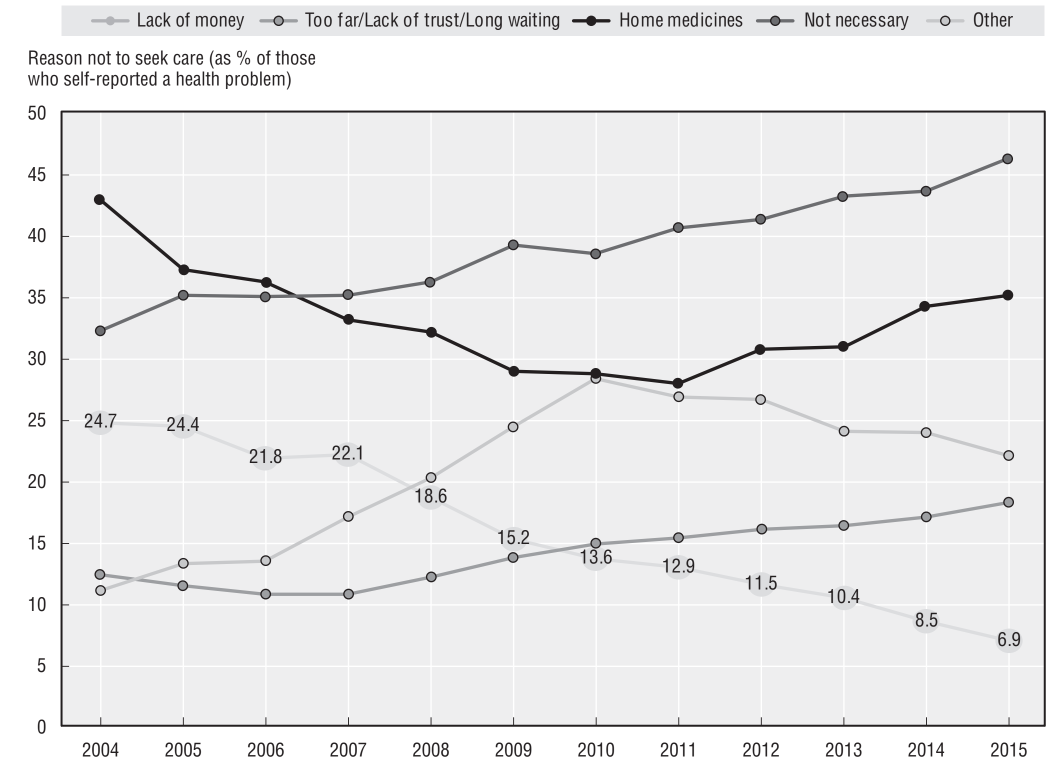
Service coverage has also improved in the last decade. The Universal Health Insurance Law and the Essential Health Insurance Plan (PEAS, *Plan Esencialde Aseguramientoen Salud*) were major steps towards creating a minimum health benefits package for all Peruvians. In particular, PEAS was designed to provide coverage for an estimated 65% of the burden of disease (Políticas en Salud, 2011b). Despite these improvements, the guarantees of timeliness and quality defined in the Essential Health Insurance Plan for specific services are still not being implemented. Efforts are needed to ensure that the health service packages regulated by law are fully implemented and available for the population.

1.2. Evolution of the institutional framework

1.2.1. A dual system since its inception

Peru has a long history of public health services (Table 1). In 1935, a Ministry of Public Health and Social Welfare was created, later renamed to Ministry of Health (MINSA, *Ministerio*

Figure 4. **Reasons for not seeking care**



Source: INEI (2015).

Table 1. **Institutional milestones in the health sector in Peru**

Year	Milestone
1903	Creation of Directorate General for Salubrity under the Ministry of Development.
1935	Creation of Ministry of Public Health and Social Welfare.
1936	Creation of a National Social Security Fund for blue collar workers (*CajaNacional del Seguro Social Obrero*).
1942	Renaming to Ministry of Public Health and Social Assistance.
1948	Creation ofa Social Security Insurance system for white collar workers(*Seguro Social del Empleado*).
1968	Renaming to Ministry of Health.
1973	The National Social Security Fund for blue collar workers and the Social Security Insurance system for white collar workers were merged into the Social Insurance of Peru.
1974	Creation of Peru Social Security's Contributions Payment System.
1979	Creation of Health Benefits Plan: broad coverage for spouse and children under 18 years of age.
1980	Creation of Peruvian Social Security Institute (IPSS): to manage pensions and health services.
1991	Creation of Private Health System, as a complementary health system to IPSS.
1997	Creation of the Social Health Insurance (EsSalud, *Seguro Social de Salud*) as decentralised public entity under the Ministry of Labour, with a complementary system rendered by private Healthcare Provider Entities (EPS, *EntidadesPrestadoras de Salud*).
1997	Free School Insurance (SEG, *Seguro Escolar Gratuito*) start providing coverage for children between 3 and 17 years of age enrolled in public schools, with services provided through the public provider network. The Social Insurance of Peru was reformed as the Social Health Insurance (EsSalud, Seguro Social de Salud).
1998	Maternal and Child Insurance (SMI,*SeguroMaternoInfantil*) began as a pilot in two areas, providing coverage to pregnant women (up to 42 days after birth) and children under 4 years of age that did not have any other health coverage.
2001	Creation of the Integral Health Insurance (SIS) by merging SEG and SMI.
2009	Framework Law for Universal Health Insurance (Ley No. 29344 – Ley Marco de Aseguramiento Universal en Salud).
2009	Approval of the Essential Health Insurance Plan (PEAS, *Plan Esencial de Aseguramiento en Salud*).
2013	Health Sector Reform (Legislative Decrees).

Source: Authors.

de Salud) in 1968. The public sector then mainly offered a network of health service providers with low co-payments. Over time, MINSA has developed a public health system, covering poorer and more vulnerable populations. In 1997, MINSA introduced a Free School Insurance, which provided free coverage in public health facilities to all children aged 3-17 enrolled in public schools. In 1998, it introduced a Maternal and Child Insurance, offering coverage to pregnant women and children under 4 without any other health coverage. These two public schemes were merged in 2001 into the Integral Health Insurance (*Seguro Integral de Salud* SIS) that started operating in 2002.

In parallel, Peru's social health insurance system developed over a similar time period, covering the working population and their families, and retirees. In 1936, a Social Insurance for blue collar workers was created (*Caja Nacional del Seguro Social Obrero*), a contributory system offering health insurance coverage (alongside accidents, disability, maternity and pensions). In 1948, a similar Social Insurance system was created for white collar workers *(Seguro Social del Empleado)*. In 1973, these two institutions were merged into the Social Insurance of Peru, which was reformed in 1997 as the Social Health Insurance (EsSalud, *Seguro Social de Salud*).

1.2.2. A decentralised responsibility since 2006

Decentralisation in Peru has long been a major issue on the government agenda. The decentralisation process started in the second half of the 1980s, and was interrupted during the 1990s (Box 1). With the return to democracy in 2000, citizen demands increased, together with pressures to increase decentralisation. From 2001 to 2006 a new legislative framework for decentralisation was established. This framework aimed at a gradual decentralisation process, including process to ensure that the necessary capacities were in place before decentralising. Health and education were planned to be the last areas to be decentralised. Following strong pressures from regions to accelerate decentralisation, the new government appointed in 2006 sped up the decentralisation reform, transferring 225 responsibilities to the regions in only six months.

This new decentralisation reform did not provide regional governments with sufficient guidance and funding to fully implement their expanded responsibilities. Sometimes this resulted in duplications of functions and potential conflicts. For example, the Regional Health Directorates (DIRESAs, *Direcciones Regionales de Salud*) from the pre-decentralised period co-exist with the Offices for Social Development (*Gerencias de Desarrollo Social*). Although both depend on Regional Governments, they differ in their approach towards health within the region. Most DIRESAs tend to have a strictly public sector approach, which does not consider other subsectors in their planning; while most Offices for Social Development tend to have a broader, territorial-based approach towards health. In any case, this depends strictly on each Regional Government's leadership.

Despite weaknesses in the decentralisation process, some regional governments have succeeded in improving their health outcomes by enhancing their institutional design in the health sector. For example, the regional government of Huancavelica reorganised its financial administrative offices (executing units, see Section 2.2) to coincide with its provinces. This reorganisation allowed for a more territorial approach to all social services including health.

Implementation of national health policies and programmes was also transferred to regional governments, reducing the role of MINSA and restricting its capacity to make the

Box 1. **The decentralisation process**

Decentralisation process in Peru had different stages in its implementation. Below is a brief outline of the process.

- In 1989, the first law for the foundation of decentralisation was passed, grouping the 24 departments into 12 "regions". These regions received sectorial attributions with their corresponding budget allocations, while the central government remained in charge of oversight and regulatory functions.
- On April 5th 1992, Congress and the Judicial Branch were dissolved, preventing any further opposition to the proposed economic reform, and also stopped regionalisation.
- In 2002, the president, 7 political parties, and organisations of civil society signed a National Agreement as a commitment to state policy guidelines, which included decentralisation. Several laws were enacted between 2002 and 2004 to facilitate regional elections, and define legal provisions for territorial organisation, regional and municipal government, participatory budget, decentralised investment, fiscal decentralisation, and regional and local government accreditation and integration.
- In 2004, the government established a three-stage process to transfer 16 functions and 124 powers, including health sector functions. The central government began to transfer funds directly to regional governments.
- In 2006, the transfer process was accelerated to meet a deadline set in December 2007. This deadline was met, with the exception of Metropolitan Lima and Callao. However, not all functions transferred had an accompanying budget by 2007.
- In 2008, the central government established the final steps to finalise the decentralisation process, which concluded in 2009. MINSA established a special commission in order to support this process.
- In 2013, MINSA created the Institute for Health Services Management (*Instituto de Gestión de Servicios de Salud*, IGSS) and transferred its remaining provider management role. This institute was dissolved on December 2016.

regional governments accountable for implementing these key programmes. This became a notorious problem in 2009 when one regional government only vaccinated 26 children, in spite of receiving 12 000 vaccines (El Comercio, 2015). In 2016, a new law was enacted to strengthen the role of MINSA. As the directing and co-ordinating authority in the health sector, MINSA is now allowed to intervene directly in the region to prevent public health emergencies.

1.2.3. Comments and recommendations

The unguided decentralisation process translates into weak co-ordination and accountability mechanisms between central, regional and local governments. Given the multiplicity of actors involved in health financing in Peru (see Section 1.3), vertical co-ordination mechanisms are essential to ensure adequate provision of health care services. Strengthening strategic co-ordinating committees and partnership groups between MINSA, SIS and the regional health offices can improve communication and dialogue on subjects of common interest. They can also help align interests and timing, and set the basis for signing contracts and agreements with the regional government. Finally, they can help disseminate good practices horizontally across regions (OECD, 2014).

The unguided decentralisation process also had a negative impact on accountability. Directors of regional health offices are appointed directly by the regional governor, reducing the role of MINSA and restricting its capacity to make regional governments accountable for implementing national health policies and programmes. In addition, MINSA has a relatively small budget to perform its stewardship role in the sector. Peru could benefit from allocating additional resources to the main actors at the national level (MINSA, Health Superintendence and SIS) to supervise and monitor policy implementation at the regional level, increasing accountability and improving service delivery in the long term.

Today, it is recognised that many regional governments still have insufficient capacity to implement the national health policy and achieve their targets. In terms of financing, this also leads to frequent budget under-execution (see Section 4.1). For these reasons a re-centralisation trend is under way, in particular, for public health policies and infrastructure investments. This can be seen in the constant increase of the share of health expenditure managed at the central level (see Section 3.2, Figure 17).

Fostering public sector skills and capacities at the subnational level is one of the key recommendations of the OECD Peru Territorial Review (2016). In the long term, Peru should apply the new civil service law to subnational governments to promote a professional subnational government civil service, introducing merit and capacity criteria, especially in those posts which are highly technical. In the short and medium term, Peru could envision the creation of a task force which could operate in the regions for planning and budgeting. This task force would provide the necessary human capital to lagging regions to properly accomplish their mission while providing knowledge transfer spill-overs. In the health sector, this task force could provide critical support in tasks such as budget planning and management and, in particular, identifying and proposing strategies to improve budget execution.

Finally, Subnational capacity to implement the national health policy is also affected by the time and resources spent to comply with bureaucratic requirements. These requirements cascade down to regional and local governments, as well as to all health service providers. SIS has two different types of information requirements: 1) to inform on production levels, so that health providers receive payment for services provided; and 2) another for payment of its per capita agreements with the regional governments. MEF also has its own information requirements; mainly those associated with results based budgeting (see Section 4.2). Finally, MINSA also requires information for national statistics reporting and monitoring. Heavy bureaucratic procedures, combined with limited resources and insufficient capacities at the subnational level, can impair health service provision.

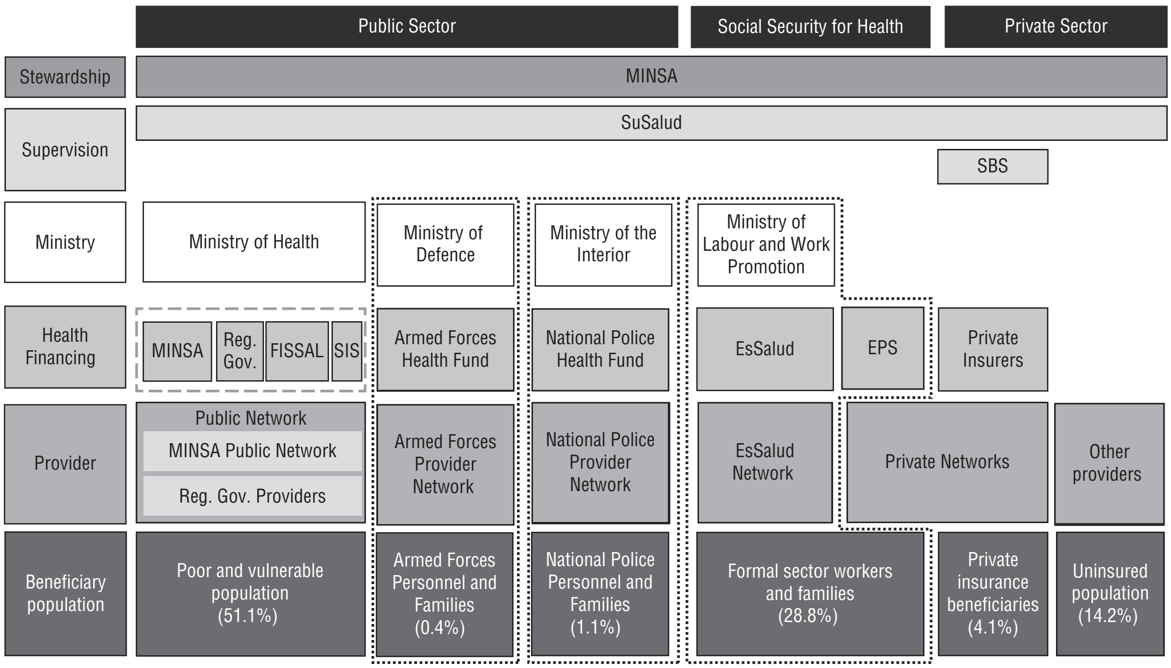
1.3. A Fragmented health system

1.3.1. Fragmented health financing arrangements

Peru's health system remains fragmented and segmented (Figure 5). Rather than having a single financial scheme for the entire health system, Peru has different subsystems organised vertically with little horizontal co-ordination of functions. In addition to there being a public insurer (SIS) and social health insurance (EsSalud), the armed forces and national police each have their own closed sub-systems. Further, an active private sector has developed since the early 1990s, mainly targeting higher-income groups, with voluntary private health insurance based on ability-to-pay. Each of these sub-systems has its own funds (i.e. there is no risk pooling across sub-systems) and its own network of health providers.

Despite the diversity of schemes, according to information from SuSalud, almost 80% of the population is covered by two main health financing systems: the public system (SIS),

Figure 5. **Peru's health system**



Source: Authors, Coverage data from SuSalud (2016).

covering 51.1% of the population, and the social health insurance system (EsSalud), which covers 28.8% of the population (SuSalud, 2016). The population still not covered by any health scheme is at 14.2%.

1.3.2. *A fragmented provision framework*

Due to great levels of fragmentation, each sub-system has and operates its own clinics and hospital network. The public sector provides health services through public provider networks managed by the regions. It is the largest provider network in the system and it includes health posts, health centres, regional hospitals, and national specialised hospitals. Most providers are managed by regional governments and the remainder by local governments. National specialised hospitals are independent public institutions, and are managed by MINSA, with the exception of the National Cancer Hospital (*Instituto Nacional de Enfermedades Neoplásicas*, INEN) which is independently managed. The public networks (excluding EsSalud) offer services to the entire population at low user fees, and for free to SIS beneficiaries. SIS pays the regional governments for services provided to its affiliates, but it is only allowed to cover the non-salary recurrent costs of these interventions. Fixed costs and salary costs are paid by regional and local governments.

EsSalud has its own health service network, offering all levels of care to its beneficiaries. These institutions provide care to EsSalud beneficiaries, and in some particular cases to SIS beneficiaries. This network is concentrated mainly in urban areas. Since 2011, there have been attempts to allow EsSalud affiliates to use the public network and SIS affiliates to use EsSalud's network. Specific agreements have been signed to achieve this objective (*Convenios de Intercambio Prestacional*). However, their implementation is limited and only 0.02% of SIS's total budget in 2015 went to the purchase of services from EsSalud (SIS, 2016b).

Private sector providers include clinics, polyclinics, outpatient clinics, laboratories, physician offices, and pharmacies, provide care to the privately-insured and anyone with the ability to pay. In recent years, SIS has signed contracts with private sector providers for selected services, to ensure a wider availability of health goods and services for its beneficiaries. SIS also signed agreements with national public hospitals and specialised institutions to strengthen the provision of specific services.

1.3.3. Comments and recommendations

Fragmentation imposes major constraints for the system and does not promote the most efficient use of resources. Some regions have hospitals of each network, creating unnecessary duplication of services, while most rural areas only have access to the public network. In addition, there is a strong division based on socio-economic conditions, since access to specific clinics and hospitals is limited to higher income groups. More co-ordination between SIS, regional governments and EsSalud on the use of their different health provider networks could create synergies in the system, reduce duplication in service provision and improve health care access.

1.4. Main health financing arrangements and key actors

The public system (SIS) is the public insurer that provides health services to poor and vulnerable populations. Despite being structured as a health insurance scheme, it is mostly financed by resources from the government budget (see Section 2.2).

Currently, there are two insurance schemes within SIS: the subsidised regime for people living in poor and vulnerable populations, which provides fully subsidised health care; and the semi-contributory regime for the near-poor and middle income, who are required to pay an enrolment fee (*SIS Emprendedor, SIS Micro-empresas, SIS Independiente*). The subsidised regime represents 98.48% of SIS beneficiaries (SIS, 2016c).

Since its creation, SIS has expanded its coverage by including new prioritised populations. Its greatest expansion occurred in 2007, when eligibility included all uninsured poor population. In 2013, eligibility was further expanded to give access not only to the poor but to all vulnerable populations (pregnant women and children under 4 years of age without health insurance) regardless of their socioeconomic status.[2] SIS population coverage has grown rapidly, reaching 51.1% in 2015 (SIS, 2016a).

In May 2009, Peru approved the Universal Health Insurance Law, broadening the right of access to healthcare, and by October 2009 the Essential Health Insurance Plan was approved as the minimum health benefits package for all Peruvians. The Essential Health Insurance Plan was designed to provide coverage for an estimated 65% of the burden of disease (Políticas en Salud, 2011).[3]

The social health insurance system (EsSalud): EsSalud is a social health insurance institution covering the working population and their families, and retirees (Table 2). Enrolment is compulsory for employees with formal contracts, unless the firm is registered as a micro-enterprise (revenues below USD 173 505 in year 2015). Part-time workers and the self-employed can also voluntarily join by paying a premium, but their participation remains limited.

EsSalud is mainly financed by contributions from the regular insurance (9% of employee's monthly salary) (see Section 2.2). Alongside the regular health insurance, there are five additional insurance plans covering work related accidents and diseases, life insurance, voluntary affiliations, self-employed, and workers from the agricultural sector. Currently EsSalud is not accepting new affiliations in the voluntary plan or the self-employed plan. Agricultural workers have a specific plan and if they are full-time workers the employer pays 4% of their salary; while self-employed agricultural workers contribute 4% of the minimum wage.

Service and financial coverage under the regular health insurance includes all health services and their corresponding cost (i.e. with no co-payments or ceilings), with the exception of plastic surgery, aesthetic odontology, and contact lenses.

Since 1997, EsSalud affiliates that work in a firm can opt for a private health insurance, if the firm chooses to provide this alternative. These are provided by private Healthcare Provider Entities (*Entidades Prestadoras de Salud*, EPS), covering at a minimum the Essential Health Insurance Plan but delivered by private health providers. Employees have the option to remain fully covered in EsSalud or to affiliate to an EPS and select one of its plans. If they decide to be covered by the EPS, only 6.75% of the monthly salary will be paid to EsSalud and the remaining 2.25% will be paid to the EPS. They have a choice of benefits plan, and must pay monthly premiums and co-payments. All services not covered by the EPS are still covered by EsSalud. The goal of this reform was to redirect part of the demand for health services towards private sector providers, thereby reducing the pressure on primary care in EsSalud's network.

Regional and local governments: Regional governments, as autonomous governing bodies, are in charge of health service provision and regional health policy, although this should align with the national health policy. They also manage the regional hospitals, and most of the health centres and health posts.

Local governments are in charge of managing all primary care, and some local governments manage their own primary care providers, which are included in the regional public network. They are also in charge of health promotion and prevention campaigns in their communities.

Private health insurance: Private sector insurers exist as a stand-alone system for the population with ability to pay. It functions as a typical competitive health insurance market, offering health plans in return for premiums adjusted by age and sex, with varying options regarding co-payments, deductibles, and ceilings. There are also pre-paid schemes offered by private clinics.

The private sector offers all types of insurance plans: from comprehensive plans to disease specific plans. For example, there are insurance plans that offer coverage for most health problems and there are plans for cancer. In all cases they use co-payments, deductibles and financial caps. Plans can include different private networks with different financial coverage, or can cover services from a single provider. Only OncoSalud offers coverage for cancer, making it the sole complementary plan. The rest of the plans may be considered duplicative if the person is already covered by SIS or EsSalud.

Table 2. **Key players in the health sector**

Ministry of health (MINSA)	MINSA has the stewardship role in the health sector. It is the highest political and administrative authority, and is responsible for approving and supervising the implementation of national policies, and leading health organisations towards achieving the sector's objectives. In 2009 and 2013, the Congress granted a delegation of legislative power to the executive, to support the health sector reform aiming to increase health insurance coverage.
Ministry of Economy and Finance (MEF)	MEF is the executive organisation responsible for fiscal policy. It ensures that the decrees enacted by MINSA for the universal health insurance only commit available funds and resources. It translates MINSA's priorities into programmes, actions and budget appropriations. It has a key role in planning of all sector's strategies. It has also led the implementation of the Results-based Budgeting programme (*Presupuesto por Resultados*, PPR).
National Health Superintendence (SUSALUD)	This superintendence was created by the Universal Health Insurance Law in 2009 to regulate and supervise the implementation of the reform. It was not until the 2013 reform that the leadership role of the superintendence was strengthened. Its current mandate is to protect and guarantee the people's right to high-quality, timely, and readily-available healthcare; and oversee health service delivered by insurers and providers.
Presidency of the Cabinet *(PCM)*	It co-ordinates national and sector policies, including cross-sector policies. PCM also leads any health emergency efforts that require cross-sector co-ordination.
Integral Health Insurance (SIS)	SIS is an independent public institution under MINSA. Its main role is to manage financial flows and provide access to health care for its affiliates (poor and vulnerable populations). The Head of SIS is appointed by the President by recommendation of the Minister of Health.
Social Health Insurance (EsSalud)	EsSalud is an independent public institution, under the Ministry of Labour and Employment Promotion (MINTRA, *Ministerio del Trabajo y Promoción del Empleo*), with full administrative autonomy. EsSalud is managed by a Governing Board composed by three representatives of the State, three representatives of employers elected by each of the business groups (large, medium, small and micro entrepreneurs), and three representatives of beneficiaries. The board is led by an executive president, and it determines the institutional policies and supervises their implementation.
Regional governments	Regional governments have regional offices for different areas, including economic and social development. In the case of the health sector, some regional governments chose to maintain the Regional Health Directorates (*Direcciones Regionales de Salud*, DIRESAs) from the pre-decentralisation period, and others chose to create Offices for Social Development (*Gerencias de Desarrollo Social*) with a comprehensive development approach. The role of these regional health offices is to plan for the health sector activities within the region, and the approach taken to do so may vary across regions. The Director for these offices is appointed directly by the regional governor.
Congress	Congress decides on health policies and sets national priorities. It also has a political oversight role of all sectors. It can create investigating committees, and demand explanations from Government ministers. Congress approves and oversees health expenditure included in the national budget.
Intangible Solidary Health Fund (FISSAL)	FISSAL complements SIS healthcare financing functions. In particular, it manages funds to finance high-cost services such as cancer, chronic kidney failure and rare or orphan diseases.
Bank, Insurance and Pension Funds Superintendence (SBS)	SBS supervises and regulates the financial, insurance and private pension's system in Peru. In particular, it supervises private health insurance financial management (e.g. compliance to minimum required funds).
Healthcare Provider Entities (EPS)	EPS are private health insurers that complement EsSalud. They are private companies that offer coverage to EsSalud affiliates to opt out of EsSalud's network and use private health providers. They charge premiums, co-payments, deductibles and financial caps.
National Financing Fund of the State's Business Activities (FONAFE)	FONAFE is a public entity in charge of regulating and co-ordinating the State's Business Activities. FONAFE supervises and approves EsSalud's budget.

2. Health expenditure and financing

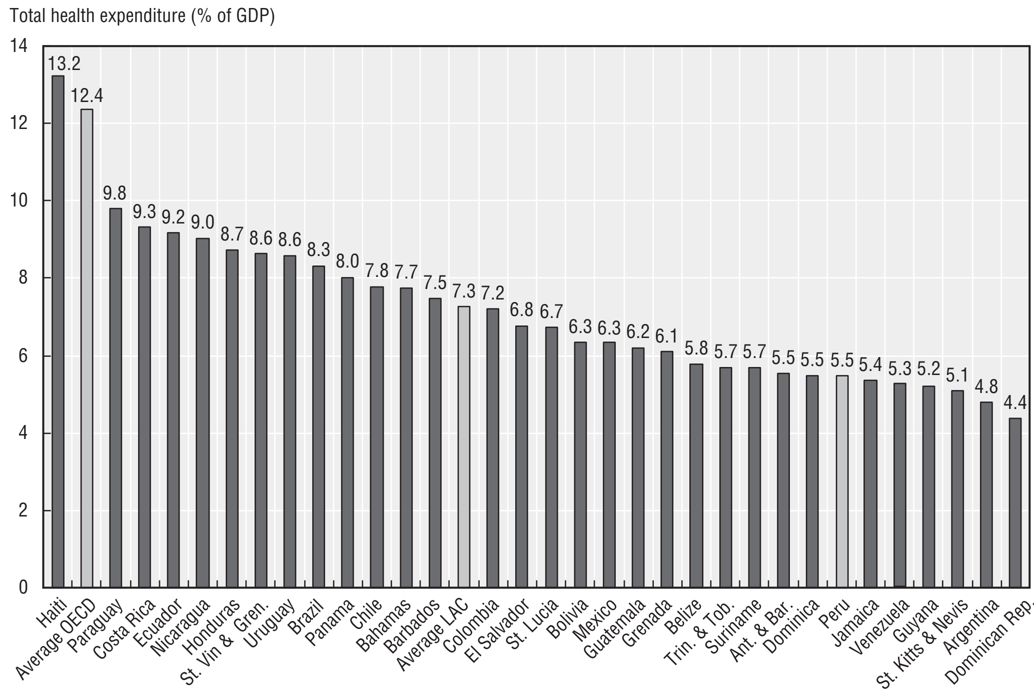
2.1. Overview of health in government expenditure

2.1.1. Evolution of total and public expenditure on health in Peru vs LAC countries

Peru's total health expenditure (THE) per capita was USD 359 in 2014, representing 5.5% of GDP. This has increased from 4.5% of GDP in 1995, and remains amongst the lowest in LAC countries (Figure 6). However, the public share of total health expenditure (i.e. central and regional government and social health insurance expenditure) is close to the OECD average (60% public expenditure) (Figure 7).

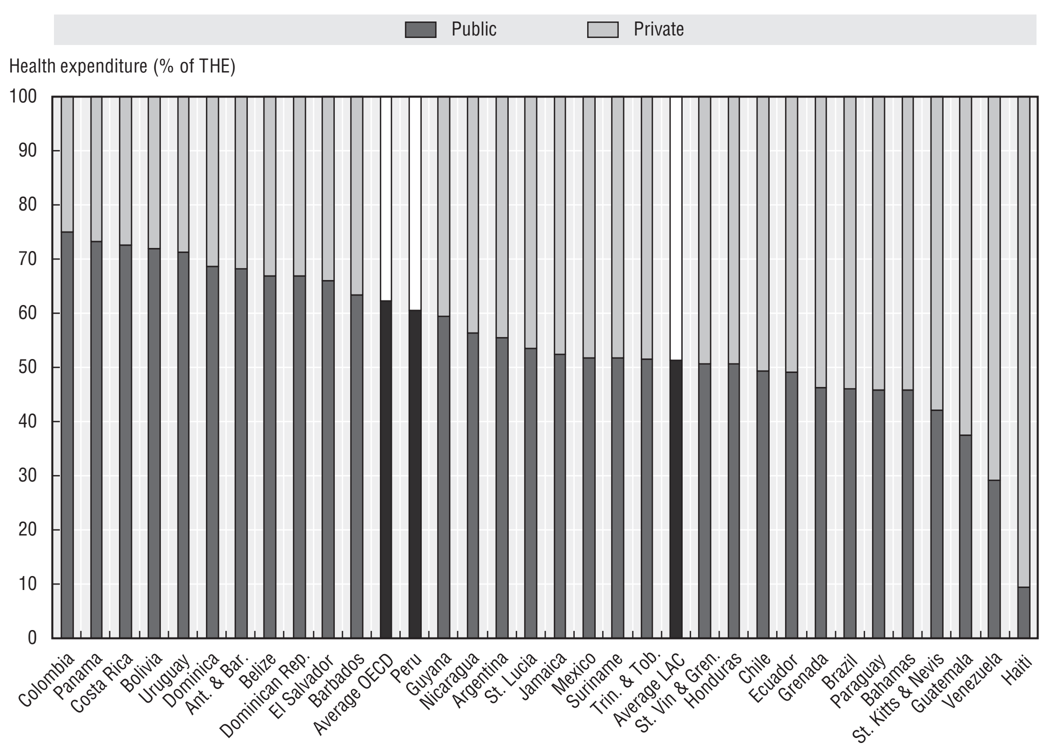
Public spending on health has been the subject of political debate in Peru. In 2005, 18 political parties signed the Political Agreement for Health (*Acuerdo Político en Salud*),

Figure 6. **Total health expenditure (% GDP, 2014)**



Source: World Bank (2016).

Figure 7. **Shares of public and private health expenditure (% THE, 2014)**

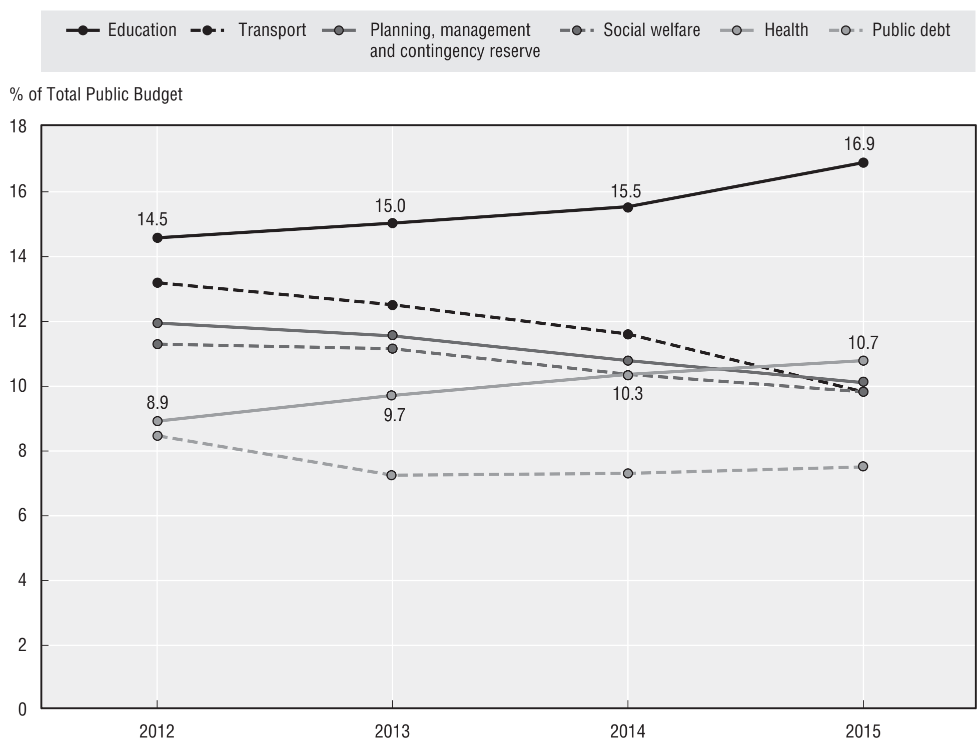


Source: World Bank (2016).

which stated, as one of its goals to increase total health expenditure to reach the average of LAC countries. Although this agreement is not legally binding, it is an indication of a general commitment to increase health expenditure. This commitment is supported by the Directing Council of the Pan American Health Organization (PAHO), which has encouraged member countries to increase "efficiency and public financing of health, as appropriate, noting that in most cases, public expenditure of 6% of GDP is a useful benchmark and that these resources should be allocated, as appropriate, on a priority basis to the primary level of care to expand the supply of quality services and quickly address unmet health needs" (PAHO, 2014, p. 89).

The share of health in public expenditure has also increased since 2012 (Figure 8). Further increases are expected, and major efforts are needed to ensure that any additional resources are spent in an efficient and sustainable way.

Figure 8. **Public expenditure by functions of government**

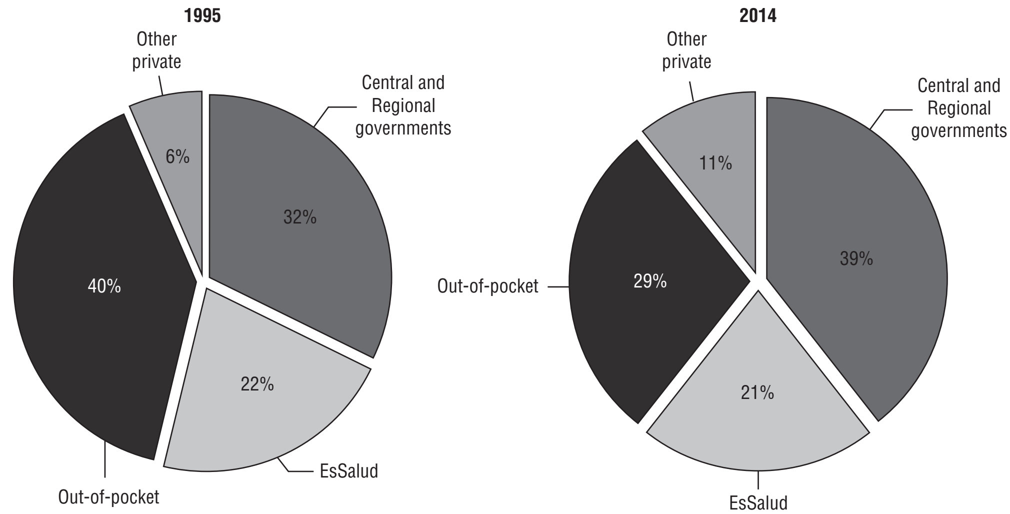


Source: MEF (2016).

2.1.2. Distribution of health expenditure by agent

There are three main financing agents for health in Peru: central and regional governments, EsSalud, and private agents. Between 1995 and 2014, the relative share of EsSalud has remained stable at around 20% of total health expenditure, while the private share has decreased from 46% to 40%, and the central and regional governments' share increased from 32% to 39% (Figure 9). Private health spending is predominantly in the form of out-of-pocket (OOP) payments that constitute 29% of total health expenditure.

Figure 9. **Health expenditure by type of financing agent (1995 vs. 2014)**



Source: WHO (2016).

2.1.3. Regional disparities in health expenditure

Sub-national governments play a key role in health service provision. However, government expenditure per capita on health varies greatly across regions, and direct expenditures of the central government in regions do not have an equalising effect (Figure 10). EsSalud does not provide information on its expenditure by regions. Even SIS transfers for primary care (which are paid in a per capita basis) show large disparities. The average per capita payment is USD 11, and it can vary from USD 5 in Lima to USD 22 in Ayacucho.

2.2. Financial flows for healthcare

2.2.1. Revenues of health care financing schemes

Central government resources for health come mainly from general taxation, and EsSalud's resources from social contributions. The share of tax revenues to GDP in Peru is one of the lowest in the LAC region (18.5% vs 21.7% in LAC and 34.4% on average in OECD in 2015), which limits government's ability to increase spending on health. Social contributions, which include health, as well as pensions, represent 11% of public revenues.

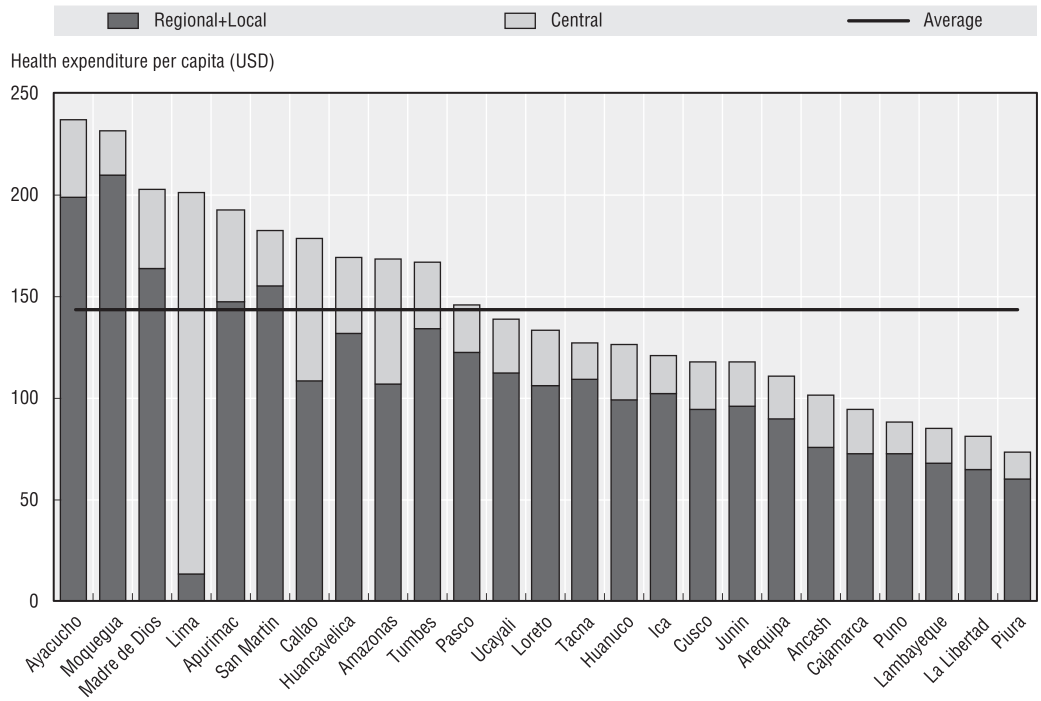
2.2.2. Financial flows for health

Peru's healthcare financing and financial flows reflect the fragmented nature of its healthcare system (Figure 11). Public budget for health comes mainly from central government resources from tax revenues, and are then divided into different funds and institutions, which then either "buy" health services or "transfer" the funds to other public institutions.

2.2.3. Financial flows for SIS and FISSAL

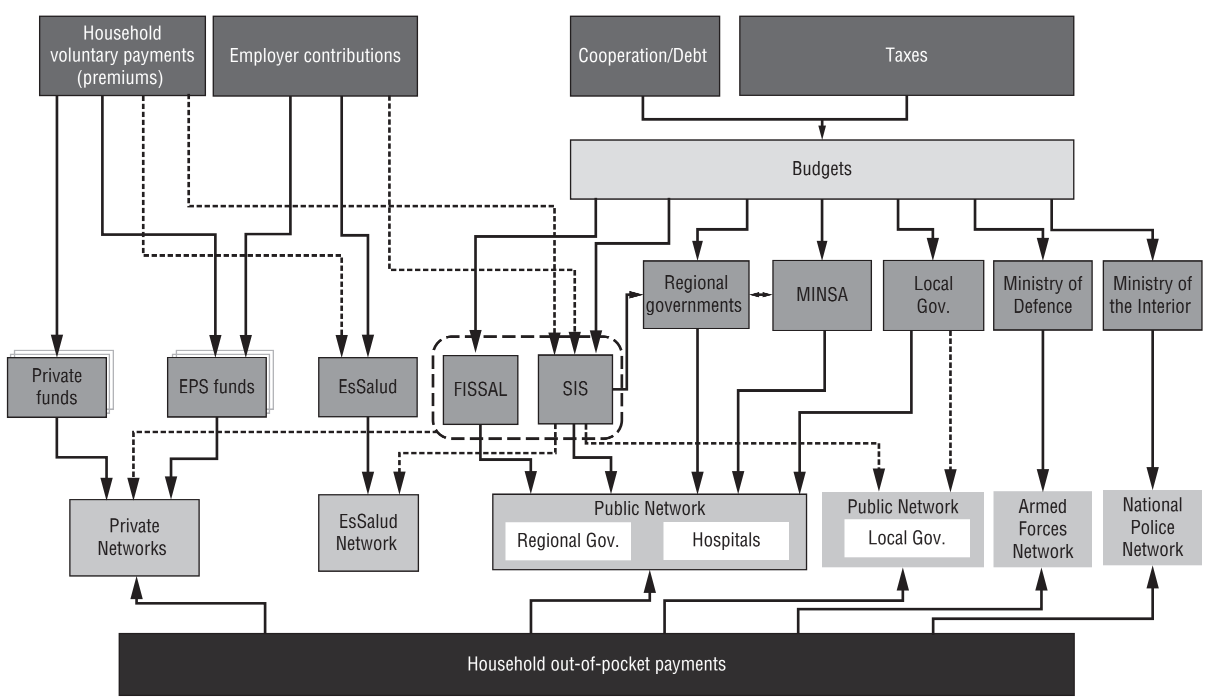
SIS is mainly financed from central government revenues, with a very small contribution from the semi-contributory regime (less than 1% of its resources). SIS beneficiaries receive care from the public network and SIS pays these providers through different payment mechanisms (fee-for-service, per capita payments, prospective fee-for-service for hospitals).

Figure 10. **Expenditure in departments by level of government (2015)**



Source: MEF (2016).

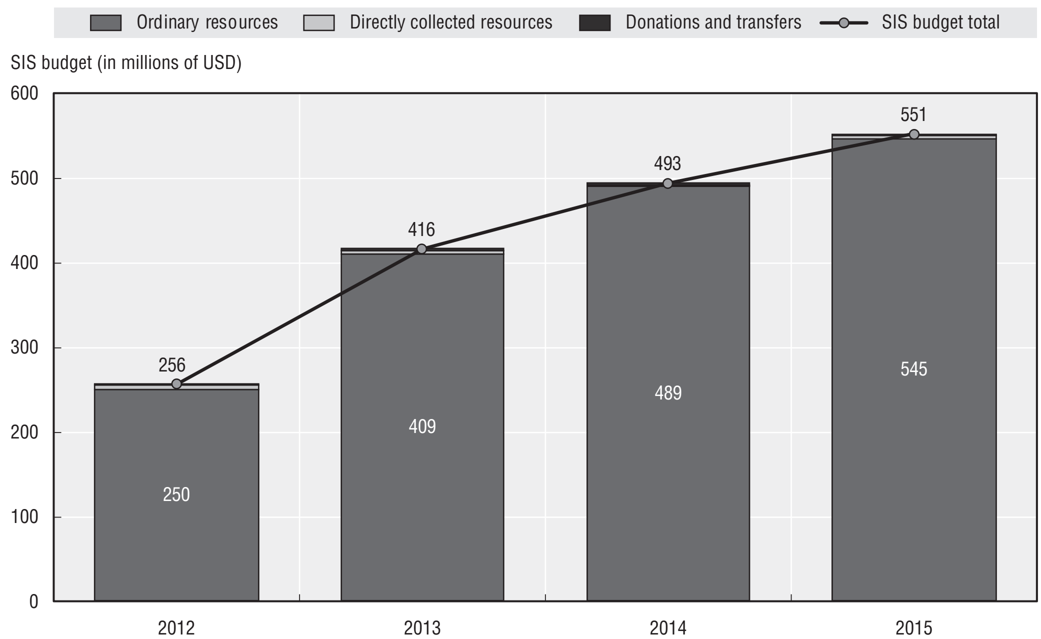
Figure 11. **Financial flows in Peru's health system**



Source: Authors.

The budget allocated to SIS has increased steadily since 2012 (Figure 12). SIS mainly buys health services from the public network,[4] but in the case of selected services, it can also buy them from EsSalud's health provision network or from private providers.

Figure 12. **Revenues of SIS**



Note: Figures from the Institutional Modified budget (*Presupuesto Institucional Modificado*, PIM).
Source: MEF (2016).

FISSAL, the fund which finances long-term and high cost illnesses, also receives its resources from the public budget and pays for the services provided by the public network operated by regional and local governments.

2.2.4. Financial flows for sub-national governments

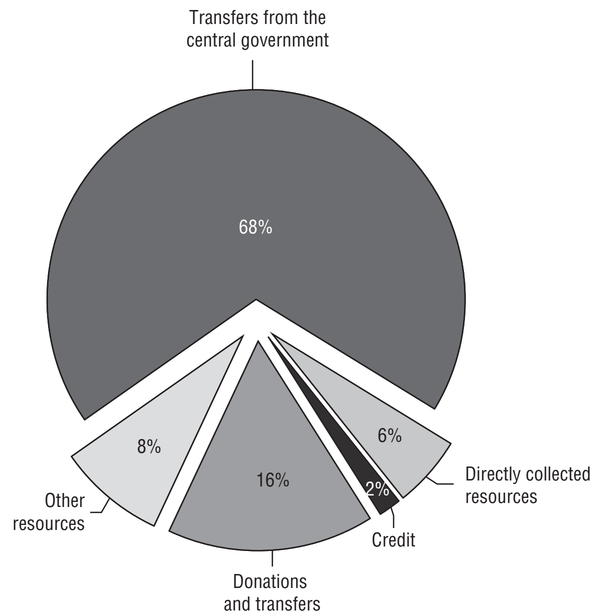
Regional and local governments' health budgets are financed mainly by transfers from the central government (68% of their resources for health in 2015), donations, and transfers from SIS and other agencies (16%) (Figure 13).

2.2.5. Financial flows for executing units (in public network)

The public sector has administrative offices that manage resources, known as "executing units" (*unidad ejecutoras*, UEs). All these financial flows in the health sector cascade down to executing units. There are more than 2 000 at all levels of government (Table 3) and there are no formal clear criteria for establishing them. At central government level, there are 42 executing units (MINSA has four, SIS has two, the IGSS has 33 (hospitals and networks),[5] and SuSalud and INEN[6] each are executing units. At the regional government level, each of the 24 regional governments constitutes an executing unit, and there are 142 additional executing units (some hospitals and service networks mainly). Finally, at the local level, there are 199 provincial and 1 838 district executing units.

Each executing unit receives funds from different institutions. Often, these come with different conditionalities, reporting mechanisms, even different performance targets.

Figure 13. **Composition of local and regional revenues for health (2015)**



Note: Other own resources correspond to "determined resources" (i.e. contribution to funds, municipal compensation fund, municipal taxes, mining and other royalties, etc.).
Source: MEF (2016).

Table 3. **Public Agents and Executing Units**

Government level	Public agents (pliegos)	Executing units
Central	MINSA	4 (MINSA, PARSALUD, DARES, Lima Sur II Network)
	INS	1
	SuSalud	1
	SIS	2 (SIS, FISSAL)
	INEN	1
	IGSS	33 (hospitals, networks)
Regional	24 regional governments	142 (hospitals, networks)
Local	Municipalities	199 Provincial
		1 838 District

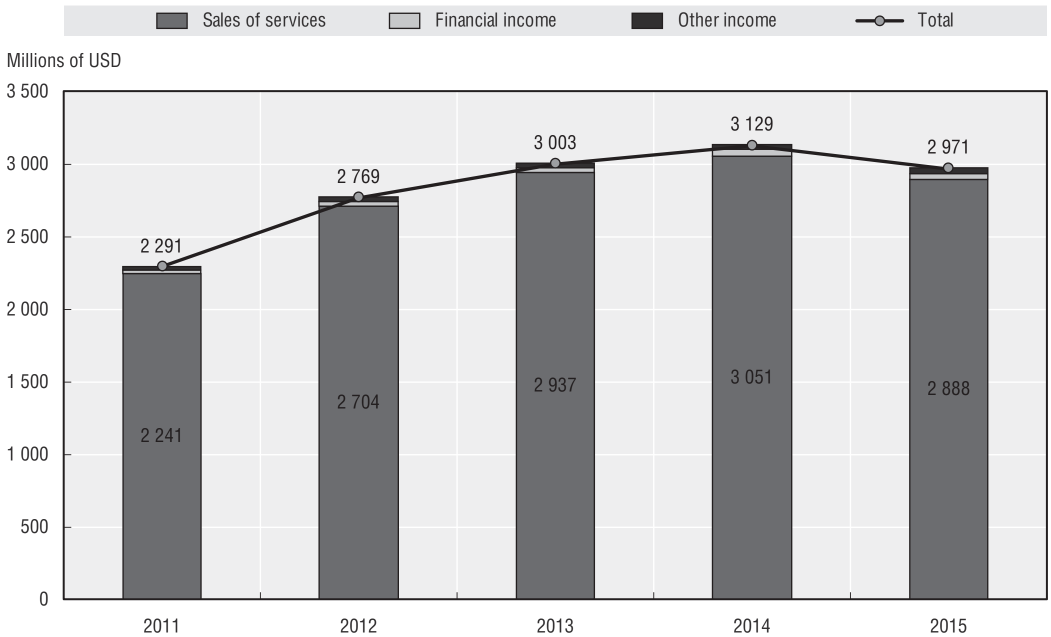
During the budget formulation process, each of these executing units also evaluates its needs for the coming year, and submits it to its agency. All these funding requests are then aggregated to prepare the budget (see Section 3.3).

2.2.6. Financial flows for EsSalud

EsSalud is mainly financed with salary-based contributions paid by employers for the regular insurance health plan and, to a much lower extent, by premium payments for its smaller health plans and direct sale of services (to SIS for example). Revenues of EsSalud have increased steadily from 2011 to 2014, with a small stagnation in 2015 (Figure 14).

Contribution to EsSalud is 9% of wages paid by the employer, and 4% of the pensions of retired workers. These funds are allocated using historical budgets to the healthcare provider network to finance health service coverage for its beneficiaries. Beneficiaries do not have to pay for services at the provider (no co-payments).

Figure 14. **Revenues of EsSalud (million USD, 2011-15)**



Source: FONAFE (2011, 2012, 2013, 2014, 2015).

In the last 20 years, three elements are affecting negatively the revenues of EsSalud:

1. Since 1997, a deviation of funds towards EPS (see below);
2. In 2009, as an anticyclical measure to give more revenues to the population, the government abolished social contributions on the 13th, 14th and 15th months' salaries of workers. This measure was made permanent in 2015.
3. In 2016, the government established different contribution rates for public sector workers. For example, contributions on fixed-term contracts in the public sector have a ceiling of approximately USD 450 for the salary used for calculating the contribution. Contributions of health and education public sector workers are based on 65% of the salary, which is equivalent to a 5.85% contribution rate.

In addition to making the system more regressive, by applying differentiated rates and caps on contributions these reforms reduce revenues of EsSalud, thus threatening its fiscal sustainability. An actuarial study of EsSalud (OIT y Casali, 2012) carried out in 2012 shows that given the reduction in contributions of public workers, the equilibrium contribution rate for its affiliates should be 10.38%.

2.2.7. EPS and private insurers

The EPS complementary funds to EsSalud are financed by a combination of employer contributions and additional premium payments. EPS finance coverage for their beneficiaries in the private healthcare provider network with co-payments, deductibles, and financial caps. If the employee chooses to affiliate to an EPS, the employer pays 2.25% of the employee's salary to the selected EPS, and 6.75% to EsSalud.

Finally, private health care insurance and providers offer a mix of plans, requiring premium payments, co-payments and deductibles that are used to cover services in the private provider networks for 4% of the population (OECD Budgeting for Health in the LAC region, 2016).

3. Budget formulation for health

3.1. General budget process in Peru

The budgetary process in Peru begins in March of the year prior. The budget process starts with a programming phase, where total requirements are calculated projecting the needs of each attention point (health centres, hospitals, etc.). Executing units (UE, *unidades ejecutoras*) aggregate the needs of the attention points under their responsibility, and public agencies and regional governments (*pliegos*) formulate their budget requirements, based on the aggregation of the needs of the budget executing units (UE, *unidades ejecutoras*) under their responsibility (Table 3). In a second phase, these requirements must be adjusted to the available funds. Based on these requirements, and the three-year Multiannual Macroeconomic Framework (MMM, *Marco Macroeconómico Multianual*), the MEF allocates an "opening budget" (*Presupuesto Institucional de Apertura*, PIA) to each executing unit (*unidad ejecutora*). This PIA is usually lower than the requested amount, and it is understood as a budget floor. Indeed, during budget execution the budget is "modified" (*Presupuesto Institucional Modificado,* PIM), i.e. budget lines are transferred from one institution/spending unit to another, according to needs and fulfilment of specific criteria (performance, etc.).

Each public agency assigns its envelope among its programmes and executing units, and presents this allocation to the MEF in June-July. The MEF then aggregates all these requests and the resulting budget bill is sent to the Cabinet Council (*Consejo de Ministros*) for approval in August, and then sent to Congress for discussion and approval. Congress has until the last day of November to amend and approve the budget, but it is very infrequent that the Congress modifies the budget proposal. This initial version of the budget is called the Opening Institutional Budget (*Presupuesto Institucional de Apertura*, PIA). As the next section will show, this initial budget is generally very different to the *ex-post* execution of the budget. Before the 31st of December, the budget law is published. Budget execution starts on the 1st of January and continues throughout the entire calendar year (Figure 15). The PIA and the PIM are available in the MEF's web page, and the PIM is updated in a monthly bases.

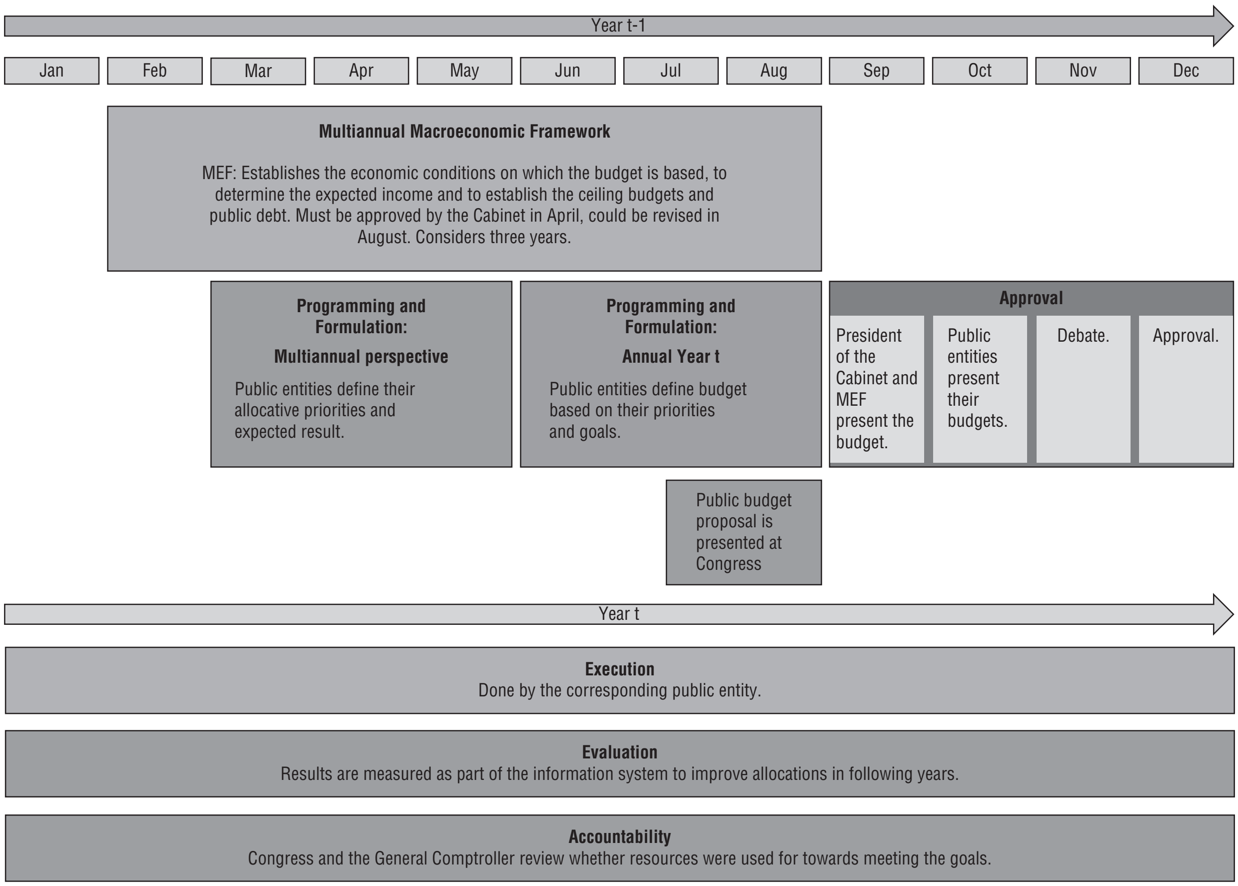
EsSalud budget process

EsSalud follows the same budgeting processes as the rest of the public sector. The one key difference is that its budget and operational plan are first approved by the directive council of EsSalud and, since 2011, these are sent to the National Financing Fund of the State's Business Activities (FONAFE, *Fondo Nacional de Financiamiento de la Actividad Empresarial del Estado*). EsSalud presents budgetary and execution information following reporting standards established for public entities. Although budgets are presented and approved by FONAFE, they are not published in a citizen-friendly format.

3.2. A specificity of budgeting in Peru: opening budget (PIA) vs modified budget (PIM)

The budget is a central policy document of government. It should show how annual and multi-annual objectives will be prioritised and achieved. According to the OECD Recommendation on Budgetary Governance (OECD, 2015), budgets should account comprehensively and correctly for all expenditures of the government. This is not the case in Peru. In Peru, the Parliament approves an "institutional opening budget" (PIA), that does not fully reflect how funds are going to be spent, but rather, which institution is responsible for deciding upon the allocation and monitoring of the funds during the budget year.

Figure 15. **Budget calendar in Peru**



Source: Authors.

Budget allocations in the PIA are considered as spending floors for most public agencies and executing units, as the budget document also authorises transfers to take place during the year, whereby higher level institutions allocate part of their budget envelope to other institutions, under certain conditions. This generates an "institutional modified budget" (PIM), where the initial budget allocation of the institution receiving the funds is increased. On the side of the institution "sending" the funds, this operation can either be registered as a decrease of the initial budget, or as budget execution. In the health sector, the main source of budget modifications is the SIS, as this is one of the instruments used to transfer resources to the executing units, in particular, to primary healthcare providers and hospitals. Transfers from SIS are registered as a budget execution in the SIS budget but are included in the PIM of the receiving institution. This creates a duplication of the budget that increases the total government health PIM.

These budget modifications can also come from transfers linked to good performance evaluations, such as transfers made by MEF from the Budgetary Support Agreements (*Convenio de Apoyo Presupuestario* CAP) and from the Performance and Social Outcomes Stimulus Fund (*Fondo de Estímulo de Desempeño y Logro de Resultados Sociales*, FED), and transfers made by the Social Development Ministry (MIDIS) for positive results in performance evaluations.

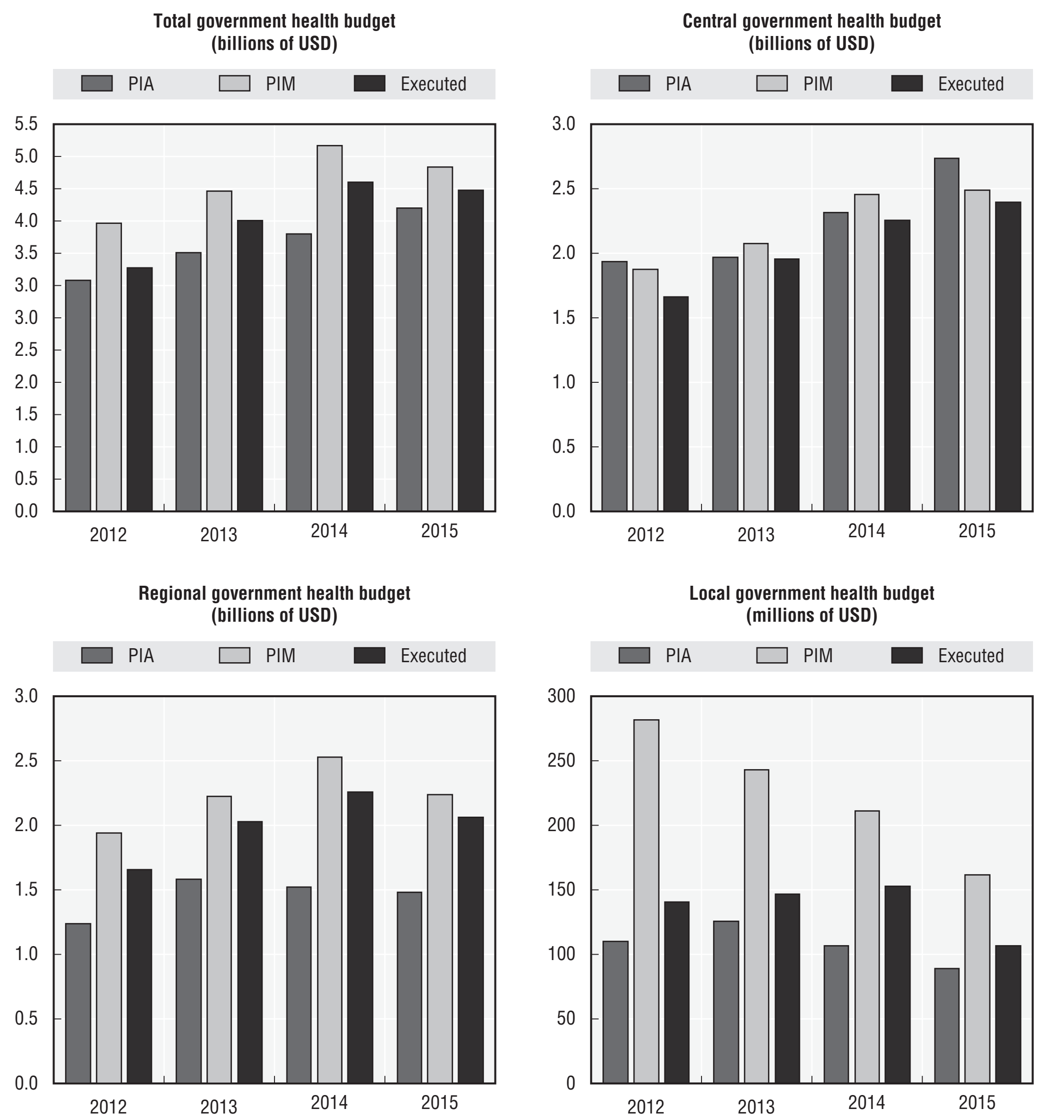
Therefore, there are three main values reported for each budget line: 1) the initial opening budget (PIA) allocated in the budget formulation phase; 2) the modified budget

(PIM), which can vary daily during the budget execution phase, and 3) the executed budget, which is subdivided into three phases, monthly commitment (*compromiso mensual*), accruement (*devengado*) and payment (*girado*).

3.2.1. Relative size of PIA and PIM by level of government

The relative sizes of the initial and modified budgets depend on the level of government. Usually, total government expenditure on health tends to be higher than initially approved (i.e. PIM is usually higher than PIA for total health expenditure). Most of the time, budget allocation transfers occur within the central health budget (between MINSA and SIS for example), or from the central health budget (SIS and MINSA) to the regional governments. The initial budget of the central government therefore decreases, but this is compensated by an increase in total expenditures for health. There is therefore little difference between the PIA and the PIM of the central health budget (Figure 16).

Figure 16. **Initial budget, modified budget and budget execution by level of government**



Source: MEF.

Regional and local governments are net receivers of budget modifications. Their modified budgets (PIMs) are much higher than their initial budgets (PIAs). Some of the main reasons behind the differences in current expenditure are transfers made by SIS and transfers made by the Ministry of Health to cover personnel expenditure (MEF, 2016). For regional governments, the difference can represent up to a third of initially allocated resources. For local governments, the modified budget is around two times the initial budget. This uncertainty on the actual budget for the year cascades down to each executing unit.

3.2.2. Comments and recommendations

This practice is a sort of mix between "budgeting" and "execution", and reflects a lack of trust towards some public agents (in particular, regional governments), or the lack of other instruments to monitor and control the correct and efficient execution of the budget. Indeed, the initial budget document states that institution A is given a budget, which will be transferred to institution B provided that institution B meets certain requirements, to be checked by institution A. This is the case for transfers made by SIS to regional governments. For example, capitated agreements are subject to the fulfilment of minimum quality standards, and are transferred by SIS to regional governments throughout the year. Usually in this situation, countries allocate the funds to the receiving institution (B) from the beginning, with a conditionality that the execution of these funds will only be allowed after institution B meets with certain criteria, to be checked and validated by institution A.

There seems to be confusion in Peru between budget allocations, which open the right to spend funds, and physical transfers of funds to the receiving institution's bank account. While the former should be made at the beginning of the budget year, the calendar for disbursements could spread the payments (i.e. the transfer of funds to the executing unit's bank account – in the absence of a Single Treasury Account) during the year, and make these conditional on the fulfilment of given conditions. Most countries allocate the budget at the beginning of the budget year, and make a separate calendar for cash disbursements, which specifies when the cash transfers to the recipient's institution's bank account will occur. OECD best practice goes even further: funds of all public revenues and expenditure are kept in a single, centrally-controlled treasury fund (Single Treasury Account). Budget allocations and the calendar for disbursement give Ministries and agencies the capacity to authorise payments from this Single Treasury Account. These payments are then executed by the Treasury on behalf of the Ministry/agency.

In addition, in Peru, the budget is allocated by programme to the executing units, based on the estimation of the required input mix to serve the local population. Correctly planning yearly execution at such a level is extremely complicated, first, because they cover relatively small populations (which are harder to predict than larger samples of population); and second, due to the insufficient planning and management capacity at that level of government. Recent trends in budgeting practices in OECD countries are to reduce the number of line items and remain at rather aggregate levels (Ministry or agency) for the allocation of funds in the budget document. Each entity then assigns funds to its different spending units, but this is registered as budget execution, rather than a budget transfer between institutions.

Making the opening budget (PIA) closer to what is expected to be executed (PIM) would greatly increase the usefulness of the budget document (PIA), in showing how resources are prioritised and how annual policy objectives are to be achieved. Indeed, in the present system, it is almost impossible to know during a budget year, whether spending in health (in total or a specific level of government) will increase or decrease compared to the previous year, and by what magnitude. Only at the end of the budget year, when the PIM of the 31st of December is determined, is it clear how much money was allocated to the health sector and to each institution within. A first step towards having a more comprehensive and reliable opening budget will be to allocate transfers made by SIS and the Ministry of Health to cover personnel expenditure to regional governments directly in the PIA and not in the PIM.

In principle, it is possible for executing units to estimate their potential final PIM (i.e. the PIM they would have on the 31st of December if they fulfil all the requirements and receive all potential transfers). However, this requires technical capacities which are often lacking in executing units. Doing such an exercise on the entire budget is also possible in principle, but very few individuals and institutions have the capacity to do so in practice. As mentioned above, it would be optimal for the budget presented to and discussed in Congress to be the final PIM. However, achieving this would imply a deep reform of the budget process and budget culture in Peru. In the meantime, the MEF could calculate and publish for information the "potential final PIM" at the 31st of December, provided that all the transfers allowed in the budget document take place. This would be a much more realistic base for discussion in Congress, and would greatly improve the transparency of the budget process in Peru.

3.3. Recent budget reform in Peru: introduction of "results-based budgeting" (PPR)

In 2007, Peru began implementing the results-based budgeting (*Presupuesto por Resultados* – PPR). This was a methodology developed by MEF as part of the National Budget System Reform (MEF-DGPP, 2010), aiming to improve public expenditure effectiveness by aligning resource allocation with government priorities and linking them to specific goals. MEF defines the PPR as "a public management strategy that links resource allocation to products and measurable results for the population" (MEF, 2015). This methodology and the cultural change it triggered constitute great improvements to the previous budgeting practices, which allocated resources on historical basis, without a clear evaluation of the needs, and the most efficient way to meet these. Currently, PPR programmes represent around half of the total health budget (Box 2).

Box 2. **Budgeting methods in Peru**

The budget formulation prepared by spending units, follows three general methods:

1. PPR programmes *(programas presupuestales)*. These are units to programme actions in an integrated and articulated way, aiming to supply products and achieve results in the population; and
2. Budget allocations not linked to products (*asignaciones presupuestales no vinculadas a productos APNOP*). These are linked to specific purposes of the organisation and are usually based on historic allocations.
3. Central activities (*actividades centrales*). These activities are related with management of equipment and human and financial resources.

PPR programmes in the health sector represent 42.5% of the total health budget in 2016. The cross-sector feature in some of the PPRs from other sectors represents 2.4% the health sectors budget. The remaining 55.5% of the budget continues to follow a historic budgeting process.

In 2008, the budget law had 5 budget programmes structured under the PPR, two of which were in the health sector: the Articulated Nutritional Programme (*Programa Articulado Nutricional,* PAN) (Box 3), and the Neonatal Maternal Health programme (*Salud Materno Neonatal,* SMN). In 2015, the budget had 81 programmes developed under the PPR framework, of which ten are in health. These programmes involve 25 out of the 29 sectors defined in the Peruvian budget, and represented 58% of total expenditure in the budget in 2015.

Box 3. **The Articulated Nutritional Programme**

The first priority identified to implement the PPR was the reduction of chronic malnutrition, which led to the Articulated Nutritional Programme (PAN). This programme started with the identification of a concrete goal: to reduce chronic malnutrition. The second step was to identify, based on evidence, the causes of chronic malnutrition, which define the intermediate goals or outcomes. Three key causes were identified: the high incidence of respiratory infections and the micronutrients deficiency; inadequate feeding of children under 6 months; and low birth weight. The third step was to identify what activities were needed to have an impact on the intermediate outcomes. Finally, evidence-based research was used to identify the most cost-effective interventions (input mix).

The multidimensionality of chronic malnutrition in Peru highlighted the need to structure programmes that involved more than one ministry or agency, breaking the traditional approach of planning and programming. In this specific case, evidence showed that reducing malnutrition is not achieved by providing people more food. Achieving this goal requires for example education policy (improving literacy, in particular of mothers), sanitation and water policies (installing water supply services and latrines, disinfecting and monitoring water quality), vaccination policies (rotavirus and pneumococcal vaccinations), among others (Figure 17).

Source: MEF.

The health sector was one of the pioneers in implementing the PPR budgeting framework. The objective was to identify a small number of high level priorities and focus resources in the most effective manner to achieve these. This was a deep cultural change compared to the previous historical budgeting methodology.

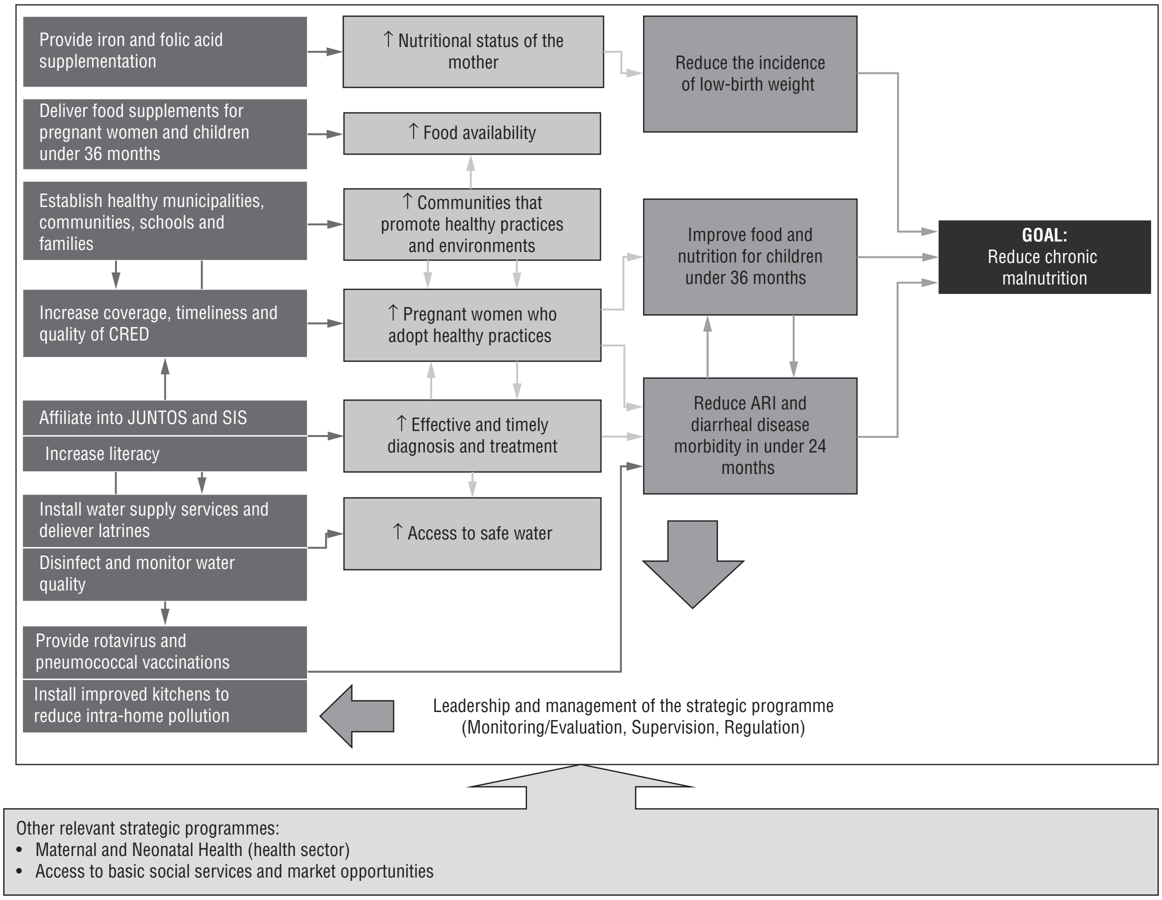
3.3.1. Linking inputs to results: using the "logical model" and the "logical framework"

The PPR was initially based on a logical model. A key feature of the logical model is that it breaks with established planning practices within the sector. The logical model gathers evidence on the specific actions which have the greatest impact on the targets, developing the concrete policies and programmes to implement these, making a cost evaluation of these actions, and making sure the budget allocates sufficient resources.

In this methodology, programmes are defined as sequences of objectives, starting with the final result intended and going back to define the resources and inputs needed to achieve these objectives (Figure 18). Since the beginning of the process, the MEF played an important role in providing guidelines and training to line ministries in order to prepare budgetary programmes based on the logical model.

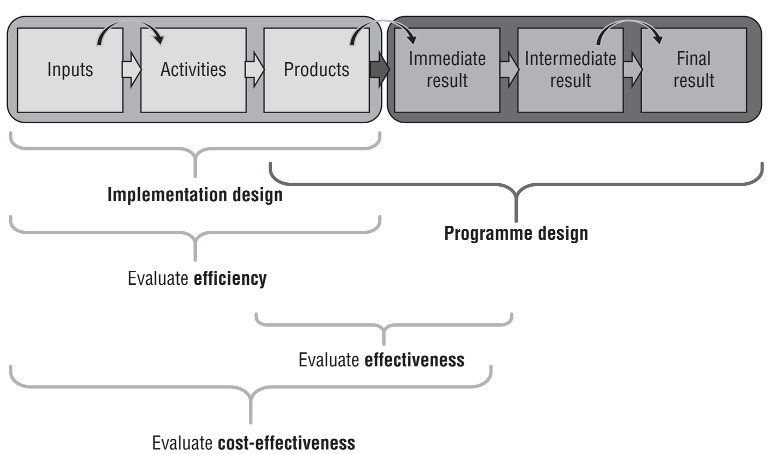
In 2011, the government switched from the "logical model" to the "logical framework" (Figure 19). The key difference is that the logical model aimed for a multi-dimensional approach, linking different ministries and institutions which have an impact on a given goal, while the logical framework is a more operationally driven method. It still identifies a clear goal, but the identification of interventions is limited to the capabilities and functions

Figure 17. **Logical model for the Articulated Nutritional Programme**



Source: MEF.

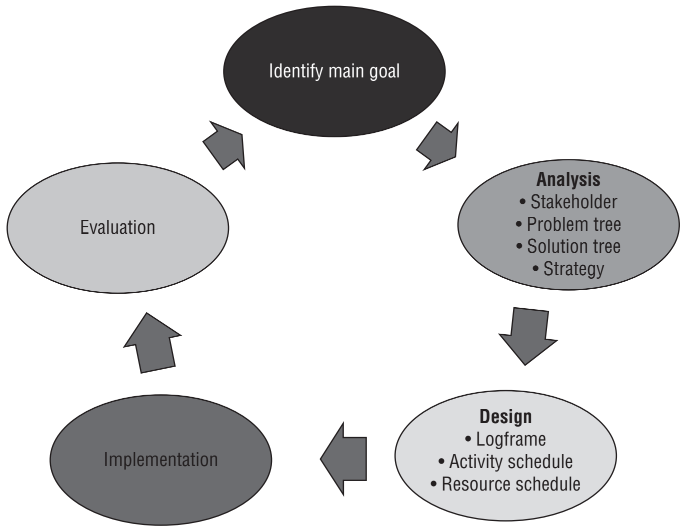
Figure 18. **Logical Model**



Source: MEF (2016).

of the public agent that is responsible for the PPR. The analysis stage is the key feature of the logical framework. In this method, the problem tree is based on identifying the problem and its causes. This is then rephrased as a solution tree, where the core problem becomes the purpose, and the cause-effect becomes a means-end relationship.

Figure 19. **The logical framework**



Source: MEF (2016).

Both methods establish public spending accountability and mechanisms for data gathering related to products and results. However, there were benefits from the initial logical model approach that were lost with the logical framework. First, the identification of the most cost-effective interventions, based on a thorough literature review, drives the results towards the set targets. The logical framework is more operationally driven, based on the capacities in place, so the most cost-effective interventions are not necessarily taken into account. Second, the multisectoral approach was one of the key features of the logical model, and it was later abandoned with the logical framework – even though, multisectoral responses are particularly relevant to achieve healthcare outcomes, as highlighted by the articulated nutritional programme (Box 3).

3.2.2. PPR in the central government health budget

PPR has been introduced as part of the budgeting system for all government sectors, but health is one of the sectors that is more advanced in the design and quality of programmes, in particular in the use of evidence to select priority interventions.

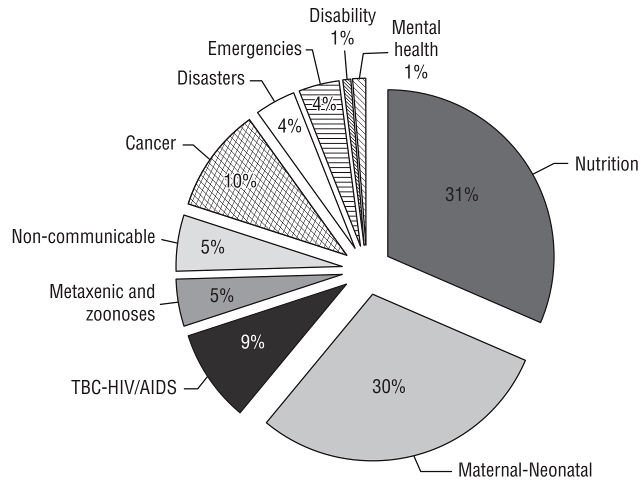
Currently there are ten PPR programmes in the health sector, which represent 42.5% of the total health budget in 2016. The first two PPR programmes that were created in health, the Articulated Nutritional Programme (PAN) and the Maternal and Child Health PPR represent almost 60% of total expenditure in PPR health programmes (Figure 20).

3.3.3. Calculating expenditure requirements in health: a bottom-up approach

Expenditure levels for health are calculated through a strong bottom-up approach in Peru. At the beginning of the process, each executing unit in the health sector must plan its needs for both its PPR and non-PPR programmes, using a sophisticated information system developed by the MEF, the SIGA (see Section 4.2). In general, under the PPR framework, budget programmes have three sections that are discussed below: key interventions, "activities" (generally investments), and management.

Key interventions. The budget for key interventions is defined based on an input mix previously determined in the PPR formulation (evidence-based cost-effective interventions).

Figure 20. **PPR budget by programme in health (2015)**



Source: MEF.

Executing units use their information on population characteristics to estimate the population which will seek care at their public providers. They then look at regional priorities to set the target coverage level for each intervention. These target coverages are known as "physical targets" (*metas físicas*).[7]

The physical targets determined by each executing unit are included in the information system, which determines the quantities they need for each input at a very detailed level. However, the input mix based on physical targets does not include human resources or equipment. Executing units define their human resources needs based on specific directives provided by MINSA (ex. number of nurses depending on the expected number of patients and characteristics of the health centre, etc.).

Executing units' requirements are aggregated at the regional level, which are transmitted to the MEF by the information system.

Investment projects. The PPR also includes the investments considered as necessary for the implementation of the key interventions. These investments fall into the public sector investment system (*Sistema Nacional de Inversión Pública*, SNIP) that requires for the programme to pass an evaluation to be approved. Finally, the third section is management, which refers to planning, purchasing, hiring, paying human resources, etc.

3.3.4. Projects of implementing PPR in EsSalud

Today, EsSalud does not use PPR in its budget process. However, it is thinking of adopting the PPR methodology to increase sustainability and improve the quality of spending. The goal would be to improve the allocation of its resources, and to link transfers from its insurance funds to its providers based on results. A pilot programme is scheduled to start implementation in 2017, with 4 to 5 budget programmes under the PPR framework.

The expansion of PPR in the public budget, not only the health sector, is an example for EsSalud in the formulation of budget allocations linked to key results for its beneficiaries. Unfortunately, due to the high fragmentation of the Peruvian health system, there is little communication between the subsectors, losing opportunities to learn from each other and create synergies.

3.3.5. Comments and recommendations

PPR represents progress, as it introduces evidence-based policy making and use of performance indicators and targets the budget process. In particular, the identification and prioritisation of a small number of national priorities is a key feature. However, in order to ensure full effectiveness of this budgeting approach the line ministry should monitor and oversee the achievement of the objectives set in the planning and budget formulation process.

Despite this progress, it is important to highlight that in practice the budget document is designed at a very detailed level, leaving little autonomy for line ministries and regions to manage their funds. PPR helps identify the right mix of inputs to achieve the different intermediary products, and replaces "input budgeting" by an "input mix" budgeting. Budget lines are still very detailed, and there is strong control to move funds from one line to another. This, together with weak planning capacities at the regional level, creates inefficiencies and is one of the causes of budget under-execution (as will be discussed in Section 4.1).

Many OECD countries are moving away from line item budgeting, giving more responsibilities to Ministries and agencies to manage their funds across their different programmes. However, this requires a very high level of capacity in these institutions, which is not yet found in Peru. Here, PPR is rather a tool to compensate for the insufficient planning and management capacity of the different actors, especially at lower levels of government and executing units. While this is understandable in the local context, it differs from OECD practices, and may introduce excessive budget control tools reducing, rather than increasing, spending levels and efficiency.

3.4. Ensuring fiscal sustainability of the public health system: evaluating financial impact of new entitlements authorised by permanent legislation

Peru does not have an explicit institutionalised mechanism to ensure that there is sufficient funding to finance new entitlements granted by legislation. Consistently, legislation creating permanent entitlements has been enacted without proper financial impact analysis. This has resulted in a lack of compliance with commitments. For example, in 2011 a public financing law approved by Congress included a commitment to finance SIS based on the actuarially estimated cost of its health coverage. However, there is no consensus on the results of this actuarial analysis, and the level of financing that the study implies would require more resources than available. This commitment has therefore not yet been implemented.

3.4.1. Introducing health technology assessment (HTA) mechanisms

Health technology assessment (HTA) is an approach used to take informed decisions on the inclusion of medical procedures, medicines, medical devices and high cost equipment in entitlements and benefits packages. HTAs compare costs with expected benefits, taking into account the medical, social, ethical and economic implications of funding such items.

In 2015, EsSalud's Institute for Health Technological Assessment and Research (*Instituto de Evaluación de Tecnologías en Salude Investigación*, IETSI) started to carry out systematic reviews related to devices, equipment and medications and is planning to make its own cost-effectiveness analysis in 2016. The main goal for the HTA for EsSalud is to improve the way health services are selected for the costlier services it covers.

SIS has also taken some first steps towards HTA. The Risk Management Department has done some systematic reviews to define the drug coverage for FISSAL. SIS has a technical commission for management of health technologies (*Comisión Técnica de Gestión de Tecnologías Sanitarias*), which aims to develop the capacity to carry out HTA analysis. MINSA's functions also include performing HTA, but it still has not created the technical unit. Finally, the National Health Institute has had some experience on HTA but it has depended on the leadership within the institute. These different public efforts are yet to co-ordinate and share information.

3.4.2. Comments and recommendations

These first steps towards implementing a health technology assessment (HTA) in Peru are great progress to ensure that medical procedures, medicines, medical devices and high cost equipment are included in the benefits packages in an efficient and responsible way. However, benefits could be maximised by joining efforts between EsSalud, SIS, INS and MINSA.

4. Health budget execution, performance and monitoring

4.1. Budget approved vs budget executed

As stated in the OECD principles of budgetary governance, the budget document should present a comprehensive view of government's expenditures. Comparing budget allocation with the actual execution therefore shows the planning capacity of the government (the closer the executed budget to the approved budget, the highest the planning capacity). Systematic budget over-executions or under-executions are a symptom that something is not working correctly. Budget over-execution may be a sign of weak fiscal planning or inadequate spending controls while budget under-execution may reveal a lack of capacity of agents to execute their budgets, or inflexible strong budget control tools that prevent them from taking the necessary corrective measures.

In the case of Peru, it is difficult to make such an analysis. Indeed, using the international practice which compares execution with the opening budget (the PIA in Peru), Peru shows high levels of budget over-execution at all levels of government (Figure 16). However, contrary to most OECD and non-OECD countries, in Peru, the budget approved by Congress, the PIA, determines spending floors rather than spending targets (see Section 3.2). Transfers between institutions are planned to occur during the year, modifying this initial budget (creating the PIM). But comparing the PIM with the executed budget (which is the common practice in Peru) does not give a lot of information either, as the transfers are themselves linked to the execution of the budgets by agencies, and may sometimes be carried out very late in the year, thus leaving little time for agencies to spend the funds.

A more interesting measure of budget execution would be to compare it with a "potential final modified budget", if such a calculation was made and published (Section 3.2). Indeed, it would then show the distance between the initially planned budget execution, and the actual execution.

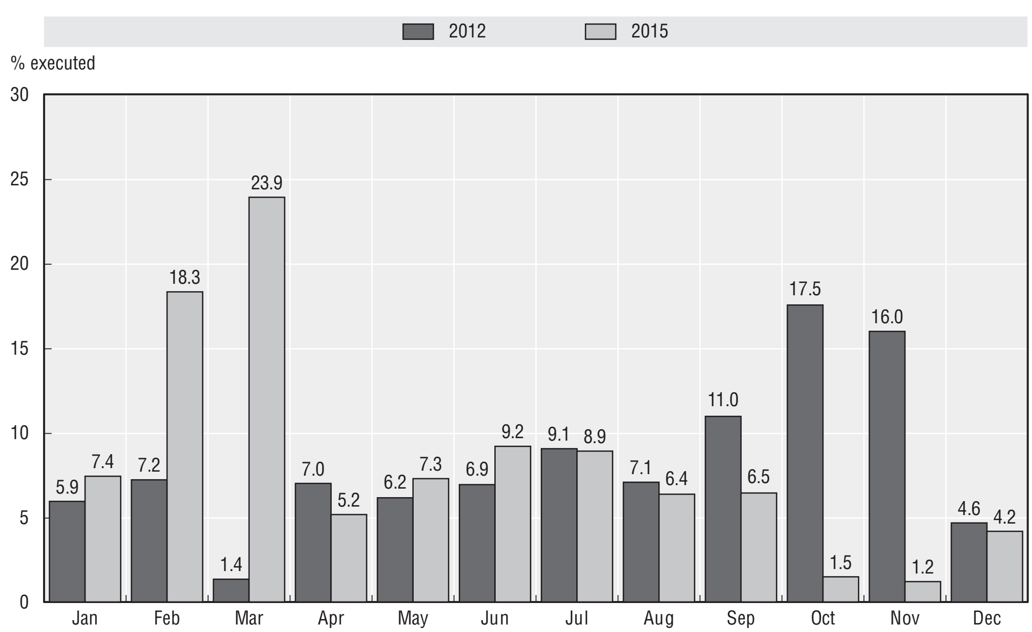
Comparing the modified budget (PIM) of the 31st of December with the execution rate by level of government, it appears that the execution rate of central government is close to 95%, close to 90% for regional governments, and this rate goes down to 65-70% for local governments (Figure 16). The following factors may explain these differences between the PIM and the executed budgets.

4.1.2. Timeliness of transfers

While all transfers that will take place between institutions are authorised in the initial budget document (PIA) and validated by Congress, there is no calendar for these in the budget law. Indeed, they depend on the fulfilment by receiving institutions of certain requirements, which may occur during the budget year. This has led to transfers of budget authorisations being made rather late in the year, thus not leaving sufficient time for the receiving institution to spend the funds. This was the case, in particular, for transfers by SIS during the first few years. One of SIS's payment mechanisms to the regions is based on per capita agreements and it represented 35% of SIS transfers in 2015. The original agreements did not have a clear payment schedule, and in addition, they were linked to meeting management goals during the budget year.

These issues have recently been addressed in an attempt to spread transfers of budget lines to regional and local executing units in a timely manner. For example, the per capita agreements have been amended to include quarterly payments, so that by the end of September, regional governments receive at least 80% of the total amount of the per capita allocation. In the case of transfers to public hospitals, SIS improved its system to audit the bills sent to them, making it easier to transfer funds. Figure 21 shows that in 2012, most of SIS's budget execution (i.e. most of the transfers it carried out) took place in October and November. In 2015, these peaks have moved to February and March. Despite these improvements, there is still room for improvement regarding the distribution of resources between regional governments (see Section 2.1) and the quality of public expenditure.

Figure 21. **Distribution of SIS's executed budget by month (2012 and 2015)**



Source: MEF (2015).

4.1.3. Regional and local capacities

As explained in Section 1, the decentralisation process took place very fast, and did not allow sufficient time to build the necessary administrative capacity in the regions before delegating responsibilities to them. This is further exacerbated by the fact that there are different payment mechanisms with their own procedures and indicators (e.g. fee-for-service, prospective fee-for-service, per capita agreements, etc.), which increases the qualifications required to manage the system.

Insufficient administrative capacity is also a problem in managing the logistics of inputs and drugs at regional and local levels. It has happened, for example, that a regional government did not include the cost and logistics for transporting the drugs from the delivery point to health facilities located in remote areas. Drugs did not reach the facility where they were needed, and could therefore not be used, except on an *ad hoc* basis for example if a nurse was kind enough to pick up the drugs from the delivery point, and bring them to the health facility.

4.1.4. Human resource gap

One of the main challenges that Peru faces is the "human resource gap", i.e. the insufficient number of doctors and nurses, and the difficulties of attracting them to work in remote areas. According to Jimenez et al. (2015), in 2013 Peru has a deficit of 11 779 physicians, 8 780 nurses, 4 950 midwives, and 27 515 dentists. If the absorption rate stays at the current level, the gap of physicians required by MINSA could be closed by 2027.

The lack of professional medical staff is all the more acute in remote areas, which face great difficulties in attracting and retaining them. In addition, the way human resources are regulated, some health staff may comply with their monthly number of hours in the first ten days of the month, and leave their post (going back to the more central areas) the rest of the month. In some areas, language is also a barrier, as most of the population speaks Quechua for example, and there are very few doctors that speak this language.

Finally, the public sector competes with EsSalud and the private sector to attract qualified personnel and, given the public sector regulations and wage negotiations, the salaries it offers are usually lower than those of EsSalud and the private sector.

This leads to budget executions lower than planed and performance targets not met, as a budget for staff is allocated, but the vacancy cannot always be filled.

The 2013 health reform introduced a wage compensation structure that provides salary, bonuses, and incentives for placements in remote or border location. However, these incentives are part of the transfers in the modified budget, and do not appear in the initial approved budget (PIA). This reduces the capacity of executing units to programme such location incentives and attract qualified personnel in a timely manner.

4.1.5. Budget rigidities

The decentralisation process in Peru assigned responsibilities and resources to regional governments, but they do not have a separate budget process. Regional governments' budgets are chapters in the general budget document. This budget document is very detailed, and is divided into a large number of budget line items. There is strong control to prevent reallocations across budget lines. This leads to situations where regional governments or executing units may have funds for one line item, but need funds for another and cannot reallocate. In this case, they would need to request additional funds for the budget line where they have a shortage, and would present a budget under-execution on the other budget line. Some flexibility in this regard was included in the Public Sector Budget of 2016.

4.1.6. Comments and recommendations

Making projections at a rather aggregate level (both in terms of population and inputs) is difficult, but the law of large numbers reduces the probability of mistake. However, at a smaller scale (for example by line item, for specific executing units), correctly projecting needs is almost impossible. Most countries are therefore moving towards higher levels of aggregation in their budgets, programming for example at the regional/agency level, and classifying inputs in broad categories (personnel, goods and services, operational transfers, etc.). If this is not possible, and budgeting is carried out at a micro-level with detailed line-items, then it is very important to allow flexibility to move funds from one budget line to another. For example, in Sweden funds are allocated to implementing agencies. While the envelope is calculated updating the baseline and evaluating the needs for new policies, the agency is then totally free to spend its budget envelope as it considers most efficient. It could for instance decide to hire more staff, or to increase the salaries of the existing staff. It could also save money on support functions, and reallocate it to its core activities. In other countries, such reallocations may be subject to approval by a higher level institution, and there are often regulations limiting the reallocations to 10% or 15% of the budget envelope, or forbidding moving funds into wages, or away from investment.

4.2. Importance of information technology for planning budgets and monitoring execution

The central government has developed very sophisticated information systems, analytical tools and databases for budget programming and monitoring, which are essential for implementing the PPR programmes and very useful for monitoring budget execution.

One of the central information systems is the Administrative Management Information System (SIGA, *Sistema de Información de Gestión Administrativa*). SIGA is divided into ten-modules.[8] The PPR programming module has the input mix for each service included in the PPR, and allows executing units to define their services, programme output targets, disaggregated by product, sub-product, and service point. The logistics module registers all goods, services, per-diems, pharmaceutical products, etc. for procurement proposes and to facilitate budget execution monitoring and control. SIGA provides detailed information, allowing MEF to monitor inputs – such as goods, services, resources, among others – that each executing unit plans, purchases and stocks.

Another important information system is the Integrated Financial Management System (SIAF, *Sistema Integrado de Administración Financiera*). SIGA's information is integrated to SIAF as a "needs list" for budgeting. The budget (and in particular the PPR programmes) uses SIAF as a support system to organise information by products, projects, and activities. SIAF is an open access database that can provide information on PIA, PIM, executed budgets, progress of budget execution by a wide range of variables including budgetary programme, appropriation, region, product, and activity. SIAF also provides information on the physical goals for activities and products.

Key agents within the system also have access to an MS Excel-based dataset known as "the Cube". This analytical tool has all the SIAF information, and can generate a variety of tables for analysis and monitoring.

Despite the great improvements achieved with the introduction of these information systems and analytical tools, there are some issues concerning data entry during the initial programming phase and subsequent modifications that can lead to inconsistent information, because physical goals are not updated with budgetary modifications. Another monitoring issue arises because some performance indicators are extracted from surveys administered by the National Institute of Statistics and Informatics (INEI, *Instituto Nacional de Estadística e Informática*). This is the case of the Demographic and Health Survey (ENDES, *Encuesta Nacional Demográfica y de Salud Familiar*) and the Health Providers Survey (ENESA, *Encuesta a Establecimientos de Salud*) for the health sector. These surveys have representative samples at aggregated regional levels. For example, ENDES is representative at the "natural regions" – Coast, Jungle, Mountain, and Metropolitan Lima.

4.2.1. Comments and recommendations

All public entities use SIAF and SIGA, except EsSalud. As an autonomous public entity, EsSalud is not required to use these systems. EsSalud purchased a SAP-based management system to ensure transparency in resource management and optimise the use of resources. This system requires frequent and expensive updates and they are assessing moving into a system similar to SIAF and SIGA. Sharing technology between the MEF and EsSalud regarding SIAF and SIGA could therefore allow savings in EsSalud's IT expenditure, which could be spent on health.

4.3. Financial performance incentives

4.3.1. There are two incentive mechanisms tied to PPR programmes

The Budgetary Support Agreement (CAP, *Convenio de Apoyo Presupuestario*) is an agreement between public entities and MEF's General Directorate of Public Budgets (DGPP, *Dirección General de Presupuesto Público*). In this agreement the public entity commits to reach specified outputs and outcome goals and to manage commitments. CAP is financed from external donations to promote specific PPR programmes, and can be considered as a performance-based incentive to improve management. Independent assessments have shown that CAPs had a positive effect in management and greater coverage of priority services. Furthermore, CAPs have enabled the various players and management processes to align with the achievement of predefined health targets (e.g. Articulated Nutritional Programme) (Cordero and Salhuana, 2014).

Given the positive results of the CAP, Peru created a second incentive scheme: the Performance and Social Outcomes Stimulus Fund (FED, *Fondo de Estímulo de Desempeño y Logro de Resultados Sociales*). The FED is managed by the Ministry of Development and Social Inclusion (MIDIS), with the participation of the MEF. The FED also provides additional resources based on management achieving performance goals.

Both of these incentives are conditional payments that provide additional funds for achieving agreed performance targets. Targets can be either processes or results. Indeed, even though the system aims at improving results, processes are important as key elements to reach the final objective. These reward payments are transferred to the relevant PPR programme and are used by the receiving institution according to its priorities.

SIS has also moved towards new payment mechanisms that are performance-based. This is the case of the per capita agreements with the regional governments, where SIS uses performance information to ensure that services are delivered at the agreed level of quality. If these levels are not reached, resources are not transferred. But, unlike the two mechanisms mentioned above (CAP and FED), it pays prospectively 80% of the estimated costs of services and retrospectively the remaining 20% using performance-based indicators.

This means that it does not represent additional resources for the regional governments. SIS also continues improving its auditing systems, ensuring that the expected standards are met. SIS pays for services through "donations and transfers", covering health variable costs. This is an incentive for regional governments to improve their services and follow SIS standards.

4.3.2. Comments and recommendations

While these financial incentives certainly have a positive impact on performance, they may reduce budget predictability. Usually, additional funds for performance achieved in (t-1) are known in March of year (t). This makes the programmeming of activities of the year more difficult, because executing units are not certain of the total amount of resources they will receive or when these resources will be transferred (Section 3.1). It may be advisable for the rewards to be paid in the following year, and computed as revenues from the budget formulation stage.

4.4. Procurement practices in health

Good procurement practices are an essential tool for ensuring the fiscal sustainability of health systems and increasing health coverage, as they can lower the cost of purchasing goods and services and deliver more services for the same expenditure level. Conversely, lack of capacity to purchase needed goods and services may generate shortages at health facilities, thereby preventing them from delivering services.

4.4.1. Centralising procurement to reduce prices

Procurement for health occurs at all levels of government. There are two central procurement programmes that aim to reduce the cost of inputs operated by the National Centre for the Supply of Strategic Resources for Health (*Centro Nacional de Abastecimiento de Recursos Estratégicos en Salud*, CENARES). The first programme is centralised purchasing and distribution of a list of drugs directly needed to implement national strategies. The second programme is known as corporate purchasing. This has two stages; first, CENARES opens reverse auctions[9] to establish the best prices for predetermined volumes; then, each institution or regional government signs its purchasing contracts with the selected providers for the negotiated price and an agreed volume.

Both centralised and corporate procurement foster the integration of purchases at the national level for the health sector. Corporate procurement further integrates all public entities – regional governments (DIRESAS/GERESAS), hospital UEs, specialised institutes, EsSalud, armed forces, national police, etc. While such programme planning process is complex, it has produced substantial savings and increased the availability of affordable quality drugs in the last decade.

Although EsSalud participates in the corporate purchasing, it still requires its own direct procurement. The centralised mechanism is limited to a subgroup of drugs and medical inputs that does not cover all of the EsSalud's needs. For example, the high cost drugs that EsSalud provides represent an important portion of EsSalud drug budget, and are not included in the corporate purchasing.

4.4.2. Overcoming insufficient capacity of some regional governments

Corporate purchasing requires regions not only to send their drug requirements to the central government, but also to have necessary funds to issue purchase and payment orders to providers. Failure to programme drug acquisitions effectively may cause issues concerning order justification, placement, and payment, which may in turn result in drug stock-outs, affecting healthcare service delivery to patients. Similarly, when there are delays at the national level in procuring drugs and other goods for subnational levels and their related executing units, regional and local governments may request exemptions that allow them to directly purchase drugs and other medical inputs. However, direct regional and local procurement take place at market prices that tend to be higher than those of the reverse auctions.

Goods that are not purchased centrally must be acquired directly by the subnational governments. However, given the complexities in the public procurement regulation and the lack of administrative capacity at the subnational level, it often happens that the needed inputs do not reach the health facilities on time. To solve this issue, SIS implemented a system of contracts with private providers and suppliers that injects flexibility to the procurement process. Through these contracts, affiliates can get goods or services directly from the private providers, which are later paid by SIS at a fixed rate.

4.4.3. Comments and recommendations

There is still space for improvement and increasing efficiency through centralised procurement. Better and more extended use of corporate purchasing could be positive. For example, corporate purchasing uses the last auctions price as the initial bidding price in the reverse auction. This may lead to the monopolisation of providers for certain drugs, and in the extreme cases to null auctions, since providers do not present their offers. The latter generates important shortages problems for local and regional governments which turn to direct, more expensive purchasing.

4.5. Transparency and accountability

Peru has made significant progress with regard to government transparency in recent years. The Transparency and Access to Public Information Act of 2002 (*Ley de Transparencia y Acceso a la Información Pública, Ley 27806*), establishes that all government information is public, except in situations where national defence and security may be compromised. It also demands that web portals of all government agencies present legal and technical information on procurement of goods and services, budget figures, official activities, etc. For example, MEF has the open access "friendly query" ("*consulta amigable*") on its web portal available to provide budget information based on SIAF.

SIS provides some information on the financial transfers to public providers (executing units) and the private providers, as well as information on affiliates and use of services. SUSALUD (National Health Superintendence) has also greatly contributed to the transparency of the health sector. Its web portal contains varying information on all institutions in the health sector and is currently strengthening its information systems to make public information readily available.

The transparency of EsSalud has improved, but is not yet at the same level as the rest of the public sector. Until 2011, EsSalud was an autonomous institution, and did not have to publish its budgets and accounts. But suspicions of misuse of funds (large increases in wage expenditures and investments), and the accumulation of deficits (in spite of these being legally forbidden) led to an investigation by Congress in 2010, and the adscription of EsSalud under the National Financing Fund of the State's Business Activities (FONAFE) in 2011.

FONAFE supervises EsSalud's budget, which now presents budgetary and execution information following reporting standards established for public entities. The information presented includes statements of financial position, income statements, budget execution reports, among other information. However, it does not provide information on spending by region. Although budgets are presented and approved by FONAFE, they are not published in a citizen-friendly format. In addition, as EsSalud does not use the SIGA and SIAF information system, its spending is not consolidated with the government expenditure on health, and cannot be monitored as closely.

5. Conclusions

Peru has made substantial progress towards achieving UHC. Coverage has increased 35% percentage points in the last 10 years, exceeding 70% in 2015. Increases in access to healthcare and financial protection had a positive impact in health outcomes; however, Peru is still behind the LAC average in some critical indicators. Major efforts are needed to reduce fragmentation and increase efficiency in the health system as a whole. Creating formal coordination mechanisms and improving capacity at the subnational level are key elements to ensure that any additional resource spent has a great positive impact in Peru's health care system.

The well-developed and highly institutionalised PPR methodology in Peru can inspire other countries, both in LAC region and OECD members. Developments in the health sector have shown that it is possible to undertake a cultural change, shifting attention from processes to results. A better alignment between resource allocations with government priorities using evidence based policies is a key step to improve public expenditure effectiveness. However, other current budget practices should be improved to allow national and subnational governments to do better planning and programming.

Notes

1. Figures provided by the National Health Superintendence SuSalud (based on registrations with a unique identifier) show some differences with the National Household Survey (based on people's self-declared insurance). According to SuSalud data, in 2015, SIS coverage reached 51.1%, EsSalud covered 26.4%, Armed Forces and National Police covered 1.5%, and the remaining covered 4.1% (SuSalud, 2015).
2. Peru has one of the highest informality levels in Latin America (close to 60% of workers). As a consequence, in 2013 there was a large share of the non-poor population that was not covered by any health system.
3. Although the Essential Health Insurance Plan includes explicit guarantees of timeliness and quality for specific services, these are still often not implemented.
4. SIS only finances a portion of the public health network recurrent costs provided to its beneficiaries. The remaining costs are directly funded by the regional government.
5. In 2013, MINSA created the Institute for Health Services Management (Instituto de Gestión de Servicios de Salud, IGSS) and transferred its remaining provider management role.
6. INEN is the National Institute for Neoplastic Diseases, which is the only specialised hospital that is completely autonomous.
7. Executing units only plan based on the population they are responsible for, i.e. they do not take into account the population covered by EsSalud or private health insurers. This differs from the method used by MINSA, which establishes coverage targets based on the entire population in the corresponding territory. Indeed, MINSA is ultimately responsible for the whole of the health sector, and in some areas, such as purchasing of drugs or other inputs, it may provide goods and services to the whole population.

8. The ten modules are: Manager, Logistics, Assets, PPR Programming, Treasury, Common Goods, Revaluation of Buildings and Land, Settings, Utilities, and Product Management.
9. A reverse auction sets a maximum price and providers compete by underbidding each other, so prices will typically decrease.

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Rationalising government fiscal reporting

Lessons learned from Australia, Canada, France and the United Kingdom on how to better address users' needs

by
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In OECD countries, fiscal reports are increasingly sophisticated, highlighting governments' commitment to fiscal transparency and accountability towards parliaments and citizens. However, users regularly express concerns with these documents, revealing a fundamental "paradox" with government fiscal reporting: desire for detail and sophistication may come at the expense of clarity. Against this background, this paper looks at four countries (Australia, Canada, France and the United Kingdom) that have endeavoured to resolve this paradox by rationalising their fiscal reporting with the aim of making it more legible for users and draws a short set of implications for other countries looking to strengthen and rationalise their fiscal reporting practices.

JEL Codes: H50, H60, H83

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Executive summary

Government fiscal reporting is a complex exercise. Fiscal reports – that is budget documents and financial reports – are indeed the means by which Governments fulfil their accountability and transparency obligations towards citizens and their representatives and communicate to a variety of stakeholders, such as economists or financial investors. In other words, fiscal reports serve several, sometimes competing, purposes and their readers differ greatly in their requirements and expertise.

Case studies in this paper were prepared from January to March 2017. They show that, for meeting these diverse purposes and needs, governments publish a wide range of fiscal reports. These reports are increasingly sophisticated, with different institutional coverages, classifications, or time dimensions depending on the document considered. Some users want to understand the whole picture of government spending and financial situation, while others are more interested in detailed information, broken-down according to line of management responsibilities or to government policies. Other notable changes include the increasing use of the accrual basis for government fiscal reporting; the introduction of management and performance information in governments' publications. Another important trend is the creation of Independent Fiscal institutions (IFIs) or Parliamentary Budget Offices (PBOs), which prepare and publish their own set of economic and fiscal data and analysis, to supplement those prepared by the government.

These changes are a testimony to governments' commitment to fiscal transparency and accountability towards parliaments and unanimously considered positive in the four OECD countries studied as part of this research.

However, a number of issues with government fiscal reports, which are mostly "technical" in nature, are still identified by users. New layers of fiscal reporting requirements have sometimes resulted in "reporting strands" that may not be fully connected to each other. In particular, fiscal reports are difficult to navigate when they use different classifications or accounting bases. Delays in the provision of fiscal documents severely impact their relevance. Fiscal reports fail to represent key figures and analysis with due prominence as, all too often, current budgeting or accounting frameworks may require "overloaded" financial information and detailed disclosures that are not relevant to decision-making. In addition, information provided in fiscal reports is sometimes overly technical, hence difficult to understand and make use of for non-technical readers.

These issues reveal a fundamental "paradox" with government fiscal reporting: desire for detail and sophistication may come at the expense of clarity and understandability.

Against this background, this paper looks at four countries (Australia, Canada, France and the United Kingdom) that have endeavoured to resolve this paradox by rationalising their fiscal reporting with the aim of making it more legible for users. Case studies highlight:

1. The need for fiscal forecasts, budgets, and accounts to be aligned or include bridging tables to allow for comparability and accountability.

2. The need to present fiscal data in a multi-faceted and connected way (consolidated/aggregated format and entity-level format; classification by type, administration or programme).
3. The need for budget documents not only to be timely but appropriately sequenced.
4. The need to ensure an appropriate mix of timely in-year provisional reports and comprehensive audited year-end reports.
5. The need to use IT to allow parliamentarians and citizens to delve into the detail of fiscal reports and structure their own queries rather than have to only read data the way governments want them to.
6. The need to bring financial and non-financial performance information into a simple and unified report.
7. The need to provide simple and accessible summaries of fiscal reports for citizens and parliamentarians.
8. The need to provide analysis and interpretation of complex and technical government financial information.
9. The need for forecasts and budgets and performance information to be subject to the same degree of independent scrutiny as accounts to ensure their integrity.
10. The need for regular and formal dialogue between governments and parliaments about their reporting requirements.
11. The need for more regular and reliable measurements of costs associated with reporting requirement to inform reviews of fiscal reporting frameworks.

Country case studies also identify a number of country-specific practices and emerging themes for further improving government fiscal reporting, such as the inclusion of performance information in in-year reporting; the production of *pro forma* financial data to allow for analysis of trends in government spending and financial situation over longer time-periods; or unit cost-level reporting for benchmark purpose.

Overall, case studies in this paper show that i) an increase in number, volume, and sophistication of fiscal reports, with virtually no fiscal reports discontinued over the last decades; ii) a trend in rationalising fiscal reporting practices – that is improving, streamlining or simplifying existing budget documents and financial reports; and iii) an increasing number of stakeholders involved in publishing commentaries and analysis of government-led fiscal reports or data.

There might be room, therefore, to bring about a clearer and shared understanding of what information the set of fiscal reports and open data systems as a whole should provide, and assessing how each reporting stream should help to achieve the overall fiscal reporting objectives.

Introduction

Historically, fiscal reports primarily served a simple purpose: seeking parliamentary authorisation for the government's budgetary plans and report realisations against them, but the last three decades have seen a proliferation in the range of stakeholders for and demands on government fiscal reports. Economists want to understand the economic impact of fiscal policies in near, medium, and long-term. Regional and international organisations, and financial investors, want to compare fiscal performance across countries. Accountants and auditors want a true and fair view. Citizens and lobby groups want information about impact of policies on particular outcomes and the distribution of resources between regions and households.

This has resulted in the increase in number, volume, and sophistication of fiscal reports. Government fiscal reporting comprises indeed a range of documents aimed at communications the past, present, and future state of public finances. These include medium and long-term fiscal forecasts, the annual budget, budget execution reports and financial statements, as well as fiscal statistics.

It also revealed some fundamental tensions between "competing" objectives of fiscal reporting:

a) Desire for comprehensiveness may come at the expense of timeliness as consolidated reports are produced at the pace of the slowest entity

b) Desire for detail may come at the expense of clarity as the big picture gets lost

c) Desire for more financial information may distract attention away from providing information on performance – that is management decisions and operational results

d) Desire for technical sophistication may come at the expense of accessibility as non-specialists can no longer understand their content

The difficulties in resolving these tensions may explain the paradox of why reports are becoming more comprehensive, detailed, but citizens and parliamentarians feel governments are no more accountable and reporting on their operations still lacks transparency and usefulness.[1]

This paper therefore looks at four countries (Australia, Canada, France and the United Kingdom), which have tried to resolve this paradox by rationalising their fiscal reporting with the aim of making it more legible for users.

To do so, questionnaires were sent to four stakeholders in each country: The Parliament, Finance Ministry, Independent Fiscal Institution (Fiscal Council or Parliamentary Budget Office) and Supreme Audit Institution. A complete list of institutions surveyed is provided in Appendix 1.

The remainder of this paper is structured as follows:

Part 1 presents the findings of the four case studies, as follows:

Section 1.1 summarises range of fiscal reports produced by governments today.

Section 1.2 discusses issues identified by users and reforms introduced by the four countries studied to streamline their fiscal reports and make them more legible for users.

Section 1.3 draws a short set of implications for other countries looking to strengthen and rationalise their fiscal reporting practices.

Section 2 comprises four case studies[2] for Australia, Canada, France and the United Kingdom.

This paper builds on and illustrates more general guidance on fiscal reporting from the OECD and other international institutions.[3]

Notes

1. These concerns are not unique to the public sector. The International Accounting Standards Board (IASB) launched a project in 2013 to address ongoing concerns about the quality and quantity of corporations' financial reporting disclosure. The IASB underscored that it was trying to deal with a general concern that, on the one hand, bigger and bigger financial reports were getting overly

costly for preparers, and, on the other hand, investors were saying that the reports were not giving them the information that they needed.

2. The evidence for case studies was obtained from the survey of key stakeholders in each country studied. The list of the institutions surveyed is provided in Appendix 1.

3. The OECD Best Practices for Budget Transparency (2002) sets out a number of documents to be produced at various stages of the budget cycle: the budget (or executive's budget proposal); pre-budget report; monthly reports on budget implementation; mid-year report; year-end report; pre-election report, and long-term report. The Best Practices also outlines specific disclosures to be included in the reports, as well as addressing issues of integrity, control and accountability, including public and parliamentary scrutiny.

   The OECD Recommendation on Budgetary Governance (2015) sets out ten principles for modern budgeting, based upon the analysis and consideration of the OECD Senior Budget Officials. In particular, Budget principle no. 4 calls on governments to "Ensure that budget documents and data are open, transparent and accessible" and budget principle no. 6 recommends to "Present a comprehensive, accurate and reliable account of the public finances".

   The IMF's Fiscal Transparency Code (2012) specifies that "Fiscal reports should provide a comprehensive, relevant, timely, and reliable overview of the government's financial position and performance. Budgets and their underlying fiscal forecasts should provide a clear statement of the government's budgetary objectives and policy intentions, and comprehensive, timely, and credible projections of the evolution of the public finances." It also defines basic, good and advanced practices for fiscal reporting, forecasting and budgeting.

1.1. Overview of fiscal reporting practices

Budget and financial management reforms have been undertaken over the last two decades in all four countries studied, which derived from the motivation across parliaments and governments to modernise, enhance accountability and improve decision making in the public sector.

Following these reforms, fiscal reporting practices have significantly evolved and share a number of characteristics described below.[1]

1.1.1. Fiscal reporting frameworks

In all countries, the broad principles governing the budget process and accountability to Parliament at year-end are defined in legislation. In Australia and France, the legislation also stipulates the purpose and requirements of fiscal reports to be prepared by the government, including the timetable for communicating documents to parliaments, presentation of the fiscal information and accounting methods. In Canada and the United Kingdom, on the contrary, most fiscal reports do not have a legislative basis and are convention-based.

1.1.2. Pre-budget statement

Prior to budget discussions, in all four countries, governments publish reports that generally set the government economic forecasts, fiscal outlook and budget priorities, even though their detailed content varies depend on the country considered. These reports are published four to six months before the start of the fiscal year.

Table 1. **Pre-budget statement publication**

Country	Name	Time-lag*
Australia	Mid-Year Economic and Fiscal Outlook	6 months
Canada	Economic and Fiscal Update	4 to 6 months
France	Preparatory Budget report	6 months
The United Kingdom	Autumn Statement	4 to 6 months

* Number of months before the start of the next fiscal year.

1.1.3. Budget proposal

Budget proposals comprise in all four countries studied: i) a policy statement describing the macroeconomic assumptions on which the budget is based, and presenting the fiscal objectives, targets and the main policy decisions (new programmes or savings) of the government; ii) annual forecasts of revenue and expenditure showing the fiscal balance and financing need; and iii) legal provisions to authorise or limit expenditures and to implement the policy measures adopted by the government.

France and countries with the Westminster tradition (Australia, Canada and the United Kingdom) present this information in different ways. In France, a single document (the "Budget Bill") both forecasts revenue and appropriates money for public policies. For countries with the Westminster budget tradition, annual forecasts are included, together with a discussion of fiscal policy and government priorities, in a budget statement debated in Parliament in the form of a vote of confidence towards the government (except for Canada, where the Budget Plan does not have legal authority). Annual authority to spend is granted through separate documents: "estimates" (also called "appropriation bills") or other laws which permanently appropriate money for specific departments and programmes (so called "entitlements").

The time-lags for publication vary significantly depending on countries, as illustrated in Table 2.

Table 2. **Budget proposal publication**

Country	Budget statements	Time-lag	Estimates	Time-lag
Australia	Budget Papers	2 months	Appropriation Bills 1, 2 and 3	2 months
Canada	Federal Government Budget	1 or 2 months	Main Estimates	2 months
France	Budget Bill	3 months	Not applicable	
The United Kingdom	Budget and Finance Bill	1 month (Budget) and at the start of the fiscal year (Finance Bill)	Main estimates	At the start of the fiscal year

Countries that have separate budget statement and estimates tend to have a wider institutional coverage in the former document. The budget statement is indeed the means by which the government provides a global view of public finances, while estimates are the vehicle for allocating revenue to a more limited number of budgetary entities.[2] In France, as the budget statement's purpose is to allocate spending authorisations (similarly to estimates); its scope is limited to budgetary entities.

Budgets (or estimates) are presented by type, on an administrative basis in three countries (Australia, Canada and the United Kingdom). In addition to the administrative basis, France allocates spending under each of the government's main policy area in the budget: Appropriations submitted to Parliament's approval are presented by public policy and programmes. In Canada, however, a pilot exercise is rolled-out to vote appropriations on a "purpose-based" basis.

In all countries studied, both cash and accrual bases are used in budget documents and financial reports, although detailed practices vary depending on the country. In Australia, the accrual basis is the main standard employed for budget documents and financial reporting, but key fiscal aggregates are presented in both accrual and cash terms in budget documents. In Canada, the budget is forecasted on accrual basis and spending is appropriated on cash basis. In France, all budget documents are presented on commitment and cash basis, but accrual basis financial statements are prepared at year-end. The Budget

Execution Law laid before Parliament at year-end therefore comprises two figures for the annual deficit: one measured on cash basis and another one measured on accrual basis. In the United Kingdom, the budget and financial statements are on accrual basis, but five different accrual basis spending totals are set for each department, alongside an amount of cash required in total to service each of these budgets.

Information on government medium-term expenditure planning is also provided to parliament as part of the budget proposal:

- in Australia, as part of the annual *Budget Papers* (current year and 3 forward years);
- in Canada, in the *Budget statement* (two-year planning period) and in the annual *Departmental Plans* (three-year planning period);
- in France, by legislation enacted periodically (for the general government, on a three to five year period and in the annual *Budget Bill* (for budgetary entities, on a three-year period); and
- in the United Kingdom, multi-year expenditure planning is done in *Spending Reviews* (three-year planning period), prior to budget discussions. Spending reviews are conducted for each departmental group every two to three years depending on government policy and departmental plans.

1.1.4. *Supplementary budgets or estimates*

Supplementary budgets or estimates include either funding requirements not developed in time for inclusion in the initial budget or estimates, or unforeseen spending. The frequency of supplementary budgets or estimates differs depending on countries. They are tabled once a year in Australia and France; twice a year in the United Kingdom; or thrice a year in Canada.

1.1.5. *Performance information*

In France, financial and non-financial information is fully integrated in budget documents: Performance targets and indicators are assigned to all appropriations both at public policy (so called missions) and programme levels. There is therefore a direct linkage between resources authorised by Parliament and performance targets.

In Australia, Canada and the United Kingdom, annual *plans* are published for each individual government entity, which provide information on what entities will spend in the coming fiscal years and related performance information. They may be indicative only and not bind the government.

1.1.6. *In-year financial reporting*

In all countries, fiscal aggregates outturns are published monthly, along with a commentary. In addition, reports on actual expenditures against appropriations granted by Parliaments are published on a monthly basis in Australia and France. It is notable that in all countries, in-year budget outturns provide financial information only in-year achievements against performance targets are not collected or not published.

1.1.7. *Year-end financial reporting*

Year-end financial reports are the core accountability documents towards Parliament. They show in all countries final outturns against budget forecasts and spending authorizations. They are published within three to six months after the end of the fiscal year.

Table 3. **Frequency of in-year financial reporting**

Country	Monthly Budget Outturns	Estimates Outturns
Australia	Australian General Government Sector Monthly Financial Statements	-
Canada	Monthly Fiscal Monitor (federal government)	Quarterly Financial reports (departments)
France	Monthly Budget Outturn	Not applicable
The United Kingdom	Public Sector Finances Bulletin	-

Table 4. **Year-end accounts publication**

Country	Report	Time-lag
Australia	Final Budget Outcome	3 months
Canada	Public Accounts of Canada	6 months
France	Budget Execution Law	5 months
The United Kingdom	Annual Reports and Accounts (departments) Public Expenditure Statistical Analyses	7 months 3 months

Additional consolidated financial statements, with a wider institutional coverage, are published later in the year by two countries. In Australia, consolidated financial statements including government controlled public corporations are completed within 5 months after the end of financial year. The United Kingdom is the only country that produces consolidated financial statements for the whole of the public sector. They are published within 12 to 14 months after the end of the fiscal year.

In Australia, Canada and the United Kingdom, individual financial reports are also published by departments and their dependant bodies. These reports comprise financial and non-financial information, such as spending outturns against estimates, audited individual financial statements and information on results achieved against performance objectives set in their plans.

1.1.8. *Long-term economic and fiscal projections*

Long term projections for public finances are produced in all four countries to measure the implications of demographic, economic and/or public policies changes for economic growth and fiscal targets.

Australia publishes *Annual Medium Term Projections*, an *Intergenerational report* and a *Superannuation defined Benefit Scheme Long Term Cost Report*. Canada publishes sustainability assessments for all three government sub-sectors as well as the Canada and Quebec pension plans. The United Kingdom publishes bi-annual *Economic and fiscal outlook,* a *Fiscal Sustainability Report* and a *Welfare Trends Report*.[3] Sustainability reporting is done with the European Commission for France, but a report on pension plans is published by the government annually.[4]

1.1.9. *Tax expenditure report*

All countries publish reports on tax expenditures and long term projections for public finances, albeit not always on an annual basis. These reports list existing tax expenditures, explain their objectives and provide estimates of their fiscal cost. In Australia, this information is published in the *Tax Expenditure Statement*; in Canada, in the *Report on Federal Tax Expenditures*; and in the United Kingdom, in the *Annual Tax Relief Report*. In France, this information is disclosed in an appendix to the *Budget Bill*.

1.1.10. Other government fiscal reports

Other types of fiscal reports are published by only one country, for example the *Pre-election Fiscal and Economic Outlook* in Australia or the upcoming Office for Budget Responsibility's *Fiscal Risk Report* in the United Kingdom.

1.1.11. Fiscal reporting by PBOs and IFIs

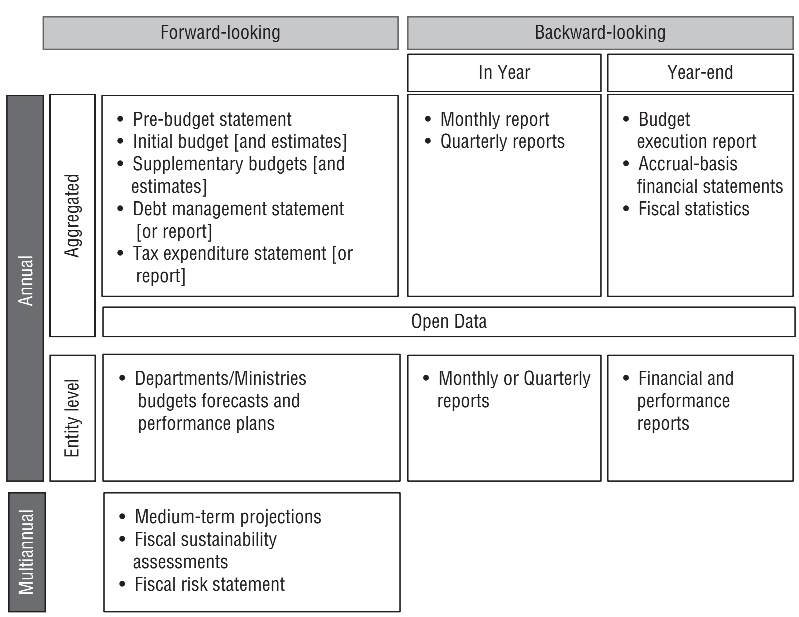
In all four countries, fiscal councils and parliamentary budget officers publish a number of fiscal reports that sometimes overlap with those prepared by governments. They are not perceived as redundant by parliamentarians though, as they bring together information provided in various budget documents; simplify the presentation of dense, complex budget documents; or provide independent analysis of the financial data published by the government.

For example, in Australia, the Parliamentary Budget Officer prepares a *Chart Pack* that provides a visual summary of the key drivers of the budget and a *National Fiscal Outlook* that brings together analysis of the budgets of the federal, state and territory governments. In Canada, the Parliamentary Budget Office reviews and comments the government's assumptions and assessment on the fiscal and economic situation and budget's and estimates' figures, and supports Parliamentary scrutiny by commenting on budget outturns published by the government. In the United Kingdom, the Office for Budget Responsibility, in addition to its economic and fiscal forecasts, publishes a *Monthly Commentary* that explains how public finances data should be interpreted in light of its most recent forecast.

* * *

Overall, the four countries studied employ many OECD best practices and recommendations in terms of budget transparency and publish a wider range of fiscal reports (see Figure 1).[5] They have all considerably strengthened government reporting

Figure 1. **Fiscal Reports published in Australia, Canada, France and the United Kingdom**



Source: OECD.

requirements and appear to have increased significantly the resources dedicated to producing fiscal reports over the last two decades.

The information collected for this study shows that parliaments and other stakeholders unanimously recognise significant progress with government reporting practices. However, reforms and additional resources have not delivered yet all the expected results, due to issues that are mostly "technical" in nature.

Accordingly, the following sections discuss the ideas and innovations that government have started putting forward for their fiscal reporting practices to evolve in a way that addresses users' concerns and needs and keeps pace with their expectations.

1.2. Key improvements and innovations

1.2.1. Presentation

1.2.1.1. Recording bases

Case studies show that users of fiscal reports may find the relationship between the various fiscal reports unclear, as both cash and accrual bases are used in budget documents and financial reports in virtually all countries.

To allow readers to easily navigate fiscal reports, most governments have therefore aligned, where possible, the accounting basis of their budget forecasts, spending limits (or appropriations) and financial reports. This was the case in Australia, where all fiscal reports follow principles and rules set out in IFRS-based Australian Accounting Standards. In the United Kingdom, the *Clear Line of Sight reforms* aligned spending limits voted by the parliament and recording of government spending in the financial reports.

Bridge tables are prepared where such an alignment was not desirable or possible, due to legal requirements, operational considerations or technical constraints. For example, in France, all reports are prepared on cash and commitment basis. The only exception is the year-end accrual-basis financial statements, which are therefore reconciled with the cash basis financial report for key aggregate (France, see Box 1).

Box 1. **France: Bridging Accrual and Cash Financial Reports**

The management commentary sent to Parliamentarians alongside the State financial statements (Compte général de l'État) includes a detailed bridge table reconciling and explaining differences between the cash basis and accrual basis deficits reported in the Budget Execution Law.

The bridge table identifies financial operations that are not reported in the cash basis deficit because they did not involve an immediate exchange of cash (for example pending transfers to public corporations or liabilities related to tax expenditure), or are reported with different presentations (for example, investment is reported as capital expenditure in the budget and as an asset in financial statements). The Public Accounting Directorate's objective is to provide accrual basis information that can better inform parliamentary discussions on next year's budget and cash basis deficit target, and therefore strengthen budgetary decision making.

Source: OECD, based on Ministère du Budget (2015), Rapport de présentation 2015 (*www.performance-publique.budget.gouv.fr/sites/performance_publique/files/files/documents/budget/comptes/2015/CGE_presentation_2015.pdf*).

1.2.1.2. Formats and classifications

Users of government fiscal reports have competing needs, highlighted for example by recent parliamentary inquiries in to government accounts or auditors' reports. One of the main dilemma highlighted by the case studies is that some users (such as public accounts committees in parliament) want to understand the whole picture of government spending and financial situation, while others (such as sectoral committees in parliament) are more interested in information broken-down according to line of management responsibilities or to government policies.

For serving these different purposes, in all countries, fiscal reports are therefore prepared according to different formats (e.g. consolidated reports and departmental reports) and classifications (e.g. expenditure broken-down by type and on administrative and programme bases). For example, Australia, Canada and the United Kingdom prepare both aggregated and departmental level fiscal reports. In France, the Budget Bill and year-end financial report presenting financial information broken down by public policy and programme and administrative basis.

These practices are considered positive in all countries studied, with parliaments calling in most countries for budget information to be presented both on administrative and programme bases. This has however sometimes resulted in "reporting strands" that may not be fully connected to each other. Where different formats and classifications are used in fiscal reports, tables and data sets need indeed to be reconciled, which still generates operational difficulties for governments.

1.2.2. Timeliness

1.2.2.1. Sequencing budget documents

Parliaments are concerned that budget documents are interconnected and have use in the parliamentary budget discussion only if they are sequenced appropriately and sufficient time is granted for reconciling and scrutinising the different figures prepared by the government, such as multi-annual expenditure forecasts, annual forecasts of revenue and expenditure, and appropriations to authorise or limit the incurrence of expenditure by ministry and/or programme.

The sequencing and publication calendar of budget documents is therefore a major area of attention from governments. In particular, countries that have a legally codified budget process have set clear timelines for tabling and publishing their budget documents. In Australia, the *Pre-budget Statement*, *Budget Papers* and *Appropriation Bills* tabled respectively 6 months and 2 months prior to the start of the fiscal year. In France, the *Pre-budget statement* and *Budget* are tabled respectively 6 months and 3 months prior to the start of the fiscal year. Other governments (Canada and the United Kingdom), which have convention-based budget calendars, have engaged in reforms under the pressure of their parliaments for clarifying and improving the timetable for tabling their budgets and estimates.

1.2.2.2. Publishing regular financial reports

In all countries, year-end financial reports are mostly used for confirmatory purpose in the budget process. Indeed, by the time they are compiled, audited and ready for publishing, the next year's budget has already been adopted. Consequently and paradoxically, non-audited budget outturns focus most of the parliamentary attention to the detriment of audited accrual basis financial statements, which are significantly more costly to prepare.

In response, in virtually all countries studied, there has been a push for "faster closure" of the year-end financial reports in recent years. Good results have been achieved for example in Australia, where audited financial statements published within 3 and 5 months after the end of financial year for the whole of the Australian Government. Generally, improvements to year-end fiscal reports' publication time lags remain necessary. This is particularly difficult to achieve where fiscal reports consolidate the individual reports of several entities, as consolidated reports are necessarily produced at the pace of the "slowest entity". Governments may therefore have to further assess trade-offs between the completeness of financial reports (in terms of institutional coverage or disclosures, for example) and users' needs for timely information.

Budget outturns are published monthly in all countries studied, but their format and content vary significantly among countries: In-year financial reporting is somehow "unchartered territory", as international guidance and standards tend to focus on specifications for year-end financial reports. A majority of countries studied for this paper publish only aggregated budget outturns, showing an overview of deficit, revenues and expenses. Actuals against appropriations are published monthly by one country only (France). Providing more detailed and reliable fiscal information in-year, as opposed to focusing most resources on year-end financial reports, is therefore an improvement area for fiscal reporting that governments – and standards setters – could further explore, based on users' inputs.

1.2.3. Relevance

1.2.3.1. Simplifying fiscal reports

Due to concerns with transparency and requirements of accounting standards, government have increasingly adopted a "checklist approach" for the inclusion of ever more information in fiscal reports, rather than a proper consideration of the value and clarity of this information. Consequently, in virtually all countries, fiscal reports are generally considered difficult to read by users. Parliamentarians often need receiving assistance from parliamentary budget offices and auditors, in the form of training or guidance papers, in order to better navigate budget documents and financial statements.

Government are aware of these problems and concerned that their publications, which are increasingly costly to prepare, may have a limited readership. This generated a noticeable trend towards simplifying fiscal reports. In Australia, such an exercise was conducted on financial reports (see Box 2). In addition, budget documents have been reviewed to ensure consistent information and appropriate level of disclosure. In Canada, the format of the estimates has been revised to simplify their presentation. In France, the length of budget documents has decreased by around 20% during the last decade following several review exercises. In the United Kingdom, departments' year-end financial reports were simplified in 2015. The Treasury is also looking at possible reforms to the presentation of the Whole of Government Accounts, including reviewing the content of the accounts to determine whether the disclosures are proportionate and focussed on the material items in the accounts.

Importantly, these government-led simplification exercises have been conducted with great attention paid to not impairing transparency and followed a formal process that involved inputs from key stakeholders prior or post reform implementation.

Box 2. **Australia: Simplification of the Australian Government financial statements**

The financial reports of Australian Government entities have been recently simplified and decluttered to 1) assist readers and users by providing simpler, more meaningful information and 2) reduce unproductive workload which does not add value to the readability of the statements.

This exercise involved input from parliamentarians, users, auditors and audit committees, departments and the Australian Accounting Standards Board under the guidance of the Financial Reporting Council and comprised three steps.

First, the rules that govern entity reporting have been simplified and streamlined. This reduced "red tape" and improved readability. Following this first step, the Australian National Audit Office noted that 50% of material entities improved the presentation of their 2014-15 financial statements. Commonly, this resulted in a reduction of 20 to 30 pages in the length of the statements by removing immaterial disclosures and those that were not directly relevant, which enhanced the financial statements' overall readability.

Second, the Department of Finance encouraged entities to review their financial statements to identify those parts, which do not assist in understanding the financial statements. This approach was supported by improvements in the specimen financial statements, and through improved guidance for staff. The Australian National Audit Office noted that approximately 85% of entities adopted the Department of Finance's streamlined template to prepare their 2015-16 financial statements and 45% of these entities made improvements beyond those set out in the template to further enhance the overall readability of their financial statements.

Third, the Department of Finance is currently considering allowing most entities to adopt Reduced Disclosure Requirements (RDR) under accounting standards, which would result in further reductions to the length of disclosure notes.

Source: OECD based on information from the Department of Finance; public reports of the Australian National Audit Office.

1.2.3.1. Combining financial and performance information

Performance information is crucial to parliamentary scrutiny, as governments shall be held to account on their spending in light of the performance of their policies. While performance information is published in all countries studied, case studies show clearly that parliaments are simultaneously calling for more performance information and concerned about the relevance and reliability of this information.

To address this reporting need and concerns, governments therefore have to first, assess whether their performance framework as a whole is sound and effective; and second whether the resulting performance information is presented in fiscal reports is a clear, timely and useful.

Case studies highlight how governments have started embracing these challenges. In most countries, performance frameworks are being reformed or at least improved and increasing attention is being paid also to integrating performance and financial information in fiscal reports. Notable examples of this trend are recent reforms in the United Kingdom and France. In France, performance information has been presented alongside information on spending allocated to each public policy in all core fiscal reports since 2006 (Box 3). In the United Kingdom, a new format for departmental *Annual Report and Accounts* was adopted in 2016, which combines performance, accountability and financial information (see Box 4).

Box 3. **France: Performance plans and reports**

The 2001 Budget Organic Law (*Loi organique relative aux lois de finances*, or LOLF) had many objectives. A core one was improving the information and accountability on performance to Parliament by presenting the objectives and performance indicators of each public policy and programme alongside related spending.

Therefore, in France, the Budget Bill integrates financial inputs and performance outputs – that is all information necessary for public policy scrutiny. At year-end, accountability to Parliaments is both on spending against authorisations and performance results against objectives and indicators set in the Budget Bill.

The legislation sets out three categories of indicators: “1) socio-economic effectiveness, to judge the expected benefits of public policies for the public, 2) quality of services provided to users, and 3) efficiency, meaning optimisation of resources.” In 2016, the budget was structured in to 31 public policies and 122 programmes.

Around 80 objectives and 90 indicators were set at mission level, and around 400 objectives and 750 indicators were set at programme level. Almost half of the indicators measures socio-economic effectiveness; a third measures efficiency; and remaining indicators measure service quality. Performance information in the Budget Bill is comprehensive, but also difficult to navigate. At the initiative of the Ministry for the Budget and Court of Accounts, the number of indicators has therefore decreased regularly.

The Ministry for the Budget also started publishing, two years ago, Performance Fact-Sheets (Données de la performance) which include, for each public policy, a two-page description of current funding levels and performance results, a comparison with funding and results of the last two years, and a narrative explaining how targets were met, or why they were missed.

Source: OECD, based on *Données de la performance 2016* (*www.performance-publique.budget.gouv.fr/actualites/2016/donnees-performance-2016-resultats-execution-budgetaire-2015#.WLBTg00zWpo*).

Box 4. **The United Kingdom: Simplifying and streamlining departments’ accounts**

The 2013 Simplifying and Streamlining Accounts reforms restructured the presentation of the statutory annual reports and accounts produced by departments so as to better meet the needs of users, structure them more logically and remove unnecessary or irrelevant material. The project has led to a restructuring of the traditional presentation of Annual reports and accounts into three sections combining all reporting requirements: performance; accountability; and financial statements.

The first section, “Performance”, gives users a short summary that provides them with sufficient information to understand the organisation, its purpose, the key risks to the achievement of its objectives and how it has performed over the year. The performance section includes performance reporting against departmental objectives (priorities and responsibilities including qualitative information and contextual information); corporate governance; statement of purpose and risks to meeting objectives; staff composition, sickness absence and staff policies; reporting on better regulation; reporting on sustainable development, climate change adaptation, rural proofing; complaints to the Parliamentary Ombudsman; effectiveness of whistleblowing arrangements; any other information in the public interest; performance in responding to correspondence from the public; recruitment practice; and health and safety reporting.

Box 4. The United Kingdom: Simplifying and streamlining departments' accounts *(cont.)*

The second section, "Accountability", aims at meeting key accountability requirements to Parliament. It is the section where departments demonstrate compliance with norms and specific codes of good corporate governance. It includes the Statement of Parliamentary Supply, which is the primary parliamentary accountability statement. It reports the outturn for the departmental group against the final annual spending entitlements authorised by Parliament. Core Tables – a time series of Public Spending data, are providing a summary of departmental spending – looking both backwards and forwards – using the same headings as voted within the Estimate.

The final section, "Financial Statements", present the entity's financial position according International Financial Reporting Standards as adapted or interpreted for the public sector. The Annual Report and Accounts includes a Certificate and Report of the Comptroller and Auditor General to the House of Commons. The Comptroller and Auditor General certifies that the financial statements including the Statement of Parliamentary Supply have been audited and gives the Comptroller and Auditor General's opinion on the accounts Where the Comptroller and Auditor General has specific concerns, he may qualify the accounts.

Source: OECD, based on HM Treasury (2014), *Simplifying and streamlining statutory annual reports and accounts*, United Kingdom (*www.gov.uk/government/uploads/system/uploads/attachment_data/file/330725/simplifying_annual_reports_print.pdf*).

In Australia and Canada, new performance frameworks have been recently introduced. Under these new frameworks, departments are expected to define performance objectives in annual "plans" and report their results in their annual financial reports.[6] For example, under the Australian Government's new performance framework, reporting entities (portfolio departments and agencies) have been required to include summary performance information in documents presented to parliament to inform the budget discussion, publish a corporate plan each year and include a performance statement in their annual report.

1.2.4. Accessibility

1.2.4.1. Access to fiscal reports and underlying data

Generally, budget documents and financial reports are presented to parliament in hard copies and more general distribution is done through government's websites. Users, in particular parliamentarians, do not find these arrangements optimal as they do not allow secondary analysis or use of tables as a data set.

Accordingly, governments increasingly make both fiscal reports and data underpinning charts and tables available on line. For example, Australia, France and the United Kingdom publish Excel spreadsheets or CSV files containing budget data in addition to their year-end financial reports. The comprehensiveness and regularity of the data publication however varies depending on countries with Australia publishing a relatively large set of data compared to other countries both monthly and at year-end.

1.2.4.2. Open data

Parliaments and civil society actors both wish that fiscal reports be understandable, but they also call for a greater level of disclosures – that is large data sets that provide targeted, specific information to inform their decision-making or analysis. This embodies well the fiscal reporting "paradox" highlighted by case studies: The desire for greater detail often comes at the expense of clarity, as the big picture gets lost.

To address this dilemma, one country, Canada, recently started exploring how open data can be used as a way to streamline fiscal reports. A searchable online database already provides information on departmental spending by type of expense and programme (Box 5). As part of the *New Policy on Results* rolled out in 2016, the government plans to publish high-level annual reports that will tell a clear story of what departments plan on doing, what they achieve, and the resources used to do so, while detailed, searchable online programme information using TBS InfoBase will be available for detailed searches.

Box 5. **Canada: TBS InfoBase**

Launched in 2013, TBS InfoBase is a searchable online database providing financial and human resources information on government of Canada operations. TBS InfoBase was conceived and developed by TBS's Expenditure Analysis team in response to a request from the Parliament for easier access to government financial data.

This database was conceived as an extension of the existing Expenditure Analysis data warehouse to provide access to detailed information on government spending and human ressources management by 1) combining contextual information and data from several sources in a single repository; 2) allowing users to have an overview of the federal government of Canada as well as of its organisations; 3) allowing users to build customised reports; 4) providing multiple ways for users to access and explore information on government operations in the manner that best suits them.

Planned improvements to the InfoBase should provide more granular information including new data, graphics and analytics. TBS InfoBase should also allow tagging connections between programmes and the core responsibilities and results they support, making possible to link objectives and results between departments where relevant. These improvements will in effect present information that is currently presented across multiple reports through a single portal.

Source: OECD, based on information provided by the Treasury Board Secretariat and TBS InfoBase (*www.tbs-sct.gc.ca/ems-sgd/edb-bdd/index-eng.html#start*).

1.2.5. Understandability

1.2.5.1. Government-led summaries

Parliamentarians and the general public need reader-friendly summaries and commentaries of technical, complex and sometimes overly detailed fiscal reports. Governments therefore increasingly publish documents tailored to the needs (and responsibilities) of each target audience, including citizens' budgets and financial statements (for the general public); and fiscal reports' summaries (for parliamentarians and technical users). In France, for example, all core fiscal reports are presented in parliamentary or citizen friendly formats, including the Citizens' Budget (*Les chiffres clés du budget de l'État*), the year-end summary report to the parliament on financial statements *(Rapport de presentation)* and citizens' financial statements (*Plaquette de présentation*).

There is also an emerging demand for management commentaries (as opposed to simple summaries). While management commentaries may relate to performance information, they differ in nature as they should provide information to readers on an entity's organisation, its purpose, the management commitments and objectives, the key risks to the achievement of its objectives and how it has performed over the year. This information is provided, for example, in the United Kingdom's *Annual Reports and Accounts* (see Box 4).

1.2.5.2. Technical commentaries and analyses

This paper highlights that the desire for technical sophistication, in terms of accounting bases, classification, etc., may come at the expense of understandability, as non-specialists can no longer easily understand the content of fiscal reports. In addition, fiscal reports often lack analysis, in the sense that they do not clarify the reasons or impacts of the financial operations that they report. This problem exists in particular with accrual basis financial statements that are commonly perceived by parliamentarians as overly technical and complex. There is a clear frustration both on the government and parliament sides with the fact that these financial statements have very limited readership, despite being the most comprehensive record of what government spends, receives, owns and owes (hence complete) and audited (hence reliable). As recent parliamentary inquiry noted for example that "Although [accrual-basis financial report] is vast, the information it provides does not clarify the main reasons for significant year-on-year changes in the Government's finances."[7]

Consequently, accountants, auditors and economists are increasingly committed to publishing accessible, useful commentaries and analysis of government financial statements. For example, in France, the Court of Audit published at the request of parliament, a report analysing the risks to public finances created by contingent liabilities, based on the State financial statements. In the United Kingdom, following a parliamentary inquiry in to the government balance sheet, the National Audit Office published a series of reports exploring some of the major risks to public finances highlighted in the Whole of Government Accounts, examining how these risks have changed in recent years and considering how the government currently manages them. Also, the Office for Budget Responsibility uses the government balance sheet to inform its assessment of the sustainability of public finances and by doing so comments on changes and trends in assets and liabilities reported by government (see Box 6).

Box 6. **United Kingdom: Analysis of the Public Sector Balance Sheet**

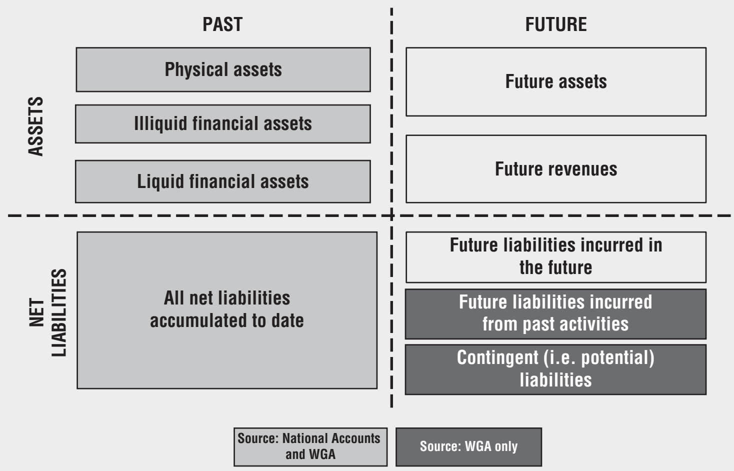
In 2016, the National Audit Office (NAO) published four reports which explore risks to public finances highlighted in the Whole of Government Accounts (WGA). The reports cover the following risk areas: financial assets and investments; provisions, contingent liabilities and guarantees; pensions; and borrowing. In these reports, the NAO clarifies and explains principles (and potential issues) with reporting and measurement of these assets and liabilities in the financial statements for non-technical readers, and discusses its findings and recommendations on their management practices.

The Office for Budget Responsibility (OBR) also uses the WGA's balance sheet to inform its analysis of the long-term sustainability of public finances.

In a recent paper, the OBR noted that the sustainability of public finances cannot be assessed using balance sheets measures, such as net worth. Indeed, due to their backward looking nature, balance sheets do not report future liabilities and assets of the government (shown in white in the figure below). They also do not measure the government "greatest financial asset: its ability to levy future taxes".

Box 6. **United Kingdom: Analysis of the Public Sector Balance Sheet** *(cont.)*

Balance sheets in the national accounts and Whole of Government Accounts are however crucial and complementary sources of information on the impact of past government activity. Indeed, as shown in the figure below, both the National Accounts and Whole of Government Accounts both measure assets and liabilities generated by past government activity. In addition, the Whole of Government Accounts measures a number of future liabilities, such as the net pension liabilities, provisions and commitments for finance leases, and discloses contingent liabilities that are not reported in the fiscal statistics.



The variations of some assets and liabilities (public service pension liabilities, students' loans assets, provisions for nuclear decommissioning, etc.) are therefore commented shortly in the OBR's Fiscal Sustainability Analysis and their long-term impact reflected in the related forecasts.

Source: OECD based on public information on the NAO's website and Office for Budget Responsibility (2016), *Fiscal Sustainability Analytical Paper: public sector balance sheet, United Kingdom* (*http://budgetresponsibility.org.uk/fiscal-sustainability-analytical-papers/*).

1.2.6. Quality

1.2.6.1. Audit or assessment of government-led reporting

To give confidence that financial and non-financial information in fiscal reports can be relied upon, independent assessment of government-led fiscal reports is increasingly provided to parliament.

This obviously includes the audit of the year-end financial statements, but auditors' missions may go beyond the financial audit of accrual-basis financial statements and encompass controls over the quality of performance data. For example, in France, the Audit report published in May each year by the Court of Accounts assesses and comments on the budget execution final outturns, but also comments and performance results reported by the government.

Similarly, IFIs and PBOs often comment on the quality and reliability of budget documents. For example, in Canada, the Parliamentary Budget Officer reviews and comments on the government's assumptions and assessment of the fiscal and economic situation and budgets and estimates figures, and supports Parliamentary scrutiny by commenting on budget outturns published by the government (see Box 7). In Australia, the Parliamentary Budget Officer prepares a *Chart Pack* that provides a visual summary of the key drivers of the budget and a *National Fiscal Outlook* that brings together analysis of the budgets of the federal, state and territory governments. In the United Kingdom, the Office for Budget Responsibility publishes a *Monthly Commentary* that explains how public finances data should be interpreted in light of its most recent forecast.

Box 7. **Canada: The Parliamentary Budget Officer's Quarterly Expenditure Monitor**

The mandate of the Parliamentary Budget Officer (PBO) is to provide independent analysis to Parliament on the state of the nation's finances, the Government's estimates and trends in the Canadian economy; and, upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction.

Since 2010, the PBO has monitored the implementation of the Budget and spending among the Government's roughly 400 programs to analyse whether it is on track to implement its overall spending commitments for the current fiscal year. This provides parliamentarians with insight regarding which policy themes are the recipients of more (or less) funding from the Budget, and whether the policy commitments are generally being implemented as originally planned. It aims at supporting informed parliamentary scrutiny of spending.

The PBO analysis is done based on government data. Each month, federal departments and agencies update the Government's Central Financial Management and Reporting System with actual spending data. This data is then shared by the Receiver General of Canada with the PBO. The PBO uses this data set to prepare its quarterly Expenditure Monitor and Estimates reports.

The PBO publishes the data underpinning its table and charts alongside its quarterly report, on its website.

Source: OECD, based on public information available on the Parliamentary Budget Officer/Directeur Parlementaire du Budget's website (*www.pbo-dpb.gc.ca/en/all_publications*).

1.2.6.2. *Independent standard setters*

Parliaments are generally concerned that government financial operations may not be reported transparently enough, or with the appropriate level of detail. In all countries, in order to address these concerns, accounting standards are set by independent standard setters or, alternatively, by the finance ministry after receiving independent advice. These standards, however, are generally applicable only to accrual basis financial statements.

In addition, councils have been set up in a number of countries to oversee specific elements of the fiscal reporting frameworks. In the United Kingdom, the Financial Reporting Advisory Board (FRAB) provides independent advice on the government's accounting guidance to public entities, to insure that it complies with applicable accounting standards. In Australia, the Financial Reporting Council (FRC) oversees the accounting and auditing standards setting processes for both the public and private sectors.

1.2.6.3. *Government and Parliament dialogue*

Parliamentarians are the primary target audience of budget documents and financial reports. Accordingly, governments increasingly seek their feedback on budget documents

Box 8. Australia: Accounting Standards Setting Arrangements

Australia has one standard setter – the Australian Accounting Standards Board (AASB) – that covers both the private sector and the public sector, after the separate Public Sector Accounting Standards Board and the former Australian Accounting Standards Board were merged in 2000. The current Board has characterised the previous arrangements as "result[ing] in much duplication of effort in reaching the same conclusions". The basis of the merger was that public sector financial reporting issues would continue to receive appropriate attention; whether this is the case is debatable, although the work programme of the Board currently includes a range of public sector issues. The AASB has a full-time chair appointed by the government and part-time members appointed by the Financial Reporting Council (FRC).

The FRC is the statutory body responsible for overseeing the effectiveness of the financial reporting framework in Australia. Its key functions include the oversight of the accounting and auditing standards setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the government on these and related matters to the extent that they affect the financial reporting framework in Australia.

Source: Budgeting in Australia, *OECD Journal on Budgeting* Vol. 8/2, OECD Publishing, Paris and Financial Reporting Council's website (*www.frc.gov.au/*).

and financial reports. France does so by co-ordinating a formal annual survey, which assesses the level of satisfaction with the documents and collects suggestions for improving reporting practice. Others countries consult parliaments pre or post reform implementation. For example, in Australia, the extensive simplification of financial statements has been rolled out after consultation with parliamentarians and other key stakeholders. In the United Kingdom, following the adoption of a new format for departments' year-end financial reports, the government undertook a post implementation review and sought feedback from preparers and stakeholders, including the parliamentary scrutiny unit, on its relative merits and success. In all countries, feedback on budget documents and financial reports is also routinely and informally collected from a variety of forums and sources, including audit committees, public accountants or chief finance officers.

1.2.6.4. Cost/benefit assessment

The costs associated with producing each or all of fiscal reports are generally not measured. Two main difficulties are mentioned to explain that situation: the extensive integration of processes and the wide range of stakeholders involved in fiscal reporting processes make the identification of separate costs difficult. Australia is the only country that provided such information: the cost of producing in-year and year-end Australian government financial statements is estimated at AUD 2.1 million per annum. This limited knowledge of the efforts or costs involved in reporting practices was underlined by a number of supreme audit institutions, such as Canada's Office of the Auditor General (2015) and France's Court of Accounts (2016).

Concerns are regularly expressed that reporting requirements may create unnecessary burdens. Interestingly, these concerns are not voiced only by preparers, but also by auditors.[8] However, virtually no fiscal reports have been discontinued over the last decades in the countries studied. Explanations include that reporting requirements stem from legislation and/or stakeholders' concerns that discontinuation of fiscal reports may impair transparency.

There might therefore be room to bring about a clearer and shared understanding of what information the set of fiscal reports and open data systems as a whole should provide, and assessing how each reporting stream helps achieving the overall fiscal reporting objectives in light of its production cost.

1.3. Conclusion

A set of tentative conclusions can be drawn from the analysis presented in the previous sections, based on case studies of Australia, Canada, France and the United Kingdom. They include:

1. The need for fiscal forecasts, budgets, and accounts to be aligned or include bridging tables to allow for comparability and accountability.
2. The need to present fiscal data in a multi-faceted way (consolidated/aggregated format and entity-level format; classification by type, administration or programme).
3. The need for budget documents not only timely but appropriately sequenced.
4. The need to ensure an appropriate mix of timely in-year provisional reports and comprehensive audited year-end reports.
5. The need to use IT to allow citizens to delve into the detail of fiscal reports and structure their own queries rather than have to only read data the way governments want them to.
6. The need to bring financial and non-financial performance information into a simple and unified report.
7. The need to provide simple and accessible summaries of fiscal reports for citizens and parliamentarians.
8. The need to provide analysis and interpretation of complex and technical government financial information.
9. The need for forecasts and budgets and performance information to be subject to the same degree of independent scrutiny as accounts to ensure their integrity.
10. The need for regular and formal dialogue between governments and parliaments about their reporting requirements.
11. The need for more regular and reliable measurements of costs associated with reporting requirement to inform reviews of fiscal reporting frameworks.

Notes

1. Fiscal years in the four countries studied are as follows: Australia (July 1-June 30); Canada (April 1-March 31); France (January 1-December 31); The United Kingdom (April 1-March 31).
2. The budget statement is a forecast that covers the public sector in the United Kingdom, and all federal government entities in Canada. In Australia, the forecasts are prepared for ministries and their dependent bodies only, but projections for public financial and non-financial corporations are included in the budget papers.
3. These long-term reports are published by the United Kingdom's IFI, the Office for Budget Responsibility.
4. The report on pension plans is published by an independent public body, the Pensions Council (Conseil d'Orientation des Retraites).

5. OECD (2002), *Best Practices for Budget Transparency*, OECD Publishing, Paris and OECD (2012), *Principles of Budgetary Governance*, OECD Publishing, Paris.
6. Departments and their dependant agencies are usually considered as one entity. Entities' plans are called Corporate Plans in Australia; Departmental plans in Canada; and Single Departmental Plans in the United Kingdom.
7. House of Commons, Committee of Public Accounts (2015), The Government Balance Sheet, United Kingdom.
8. Australia: Australian National Audit Office (2015); France: Court of Accounts (2016); Canada: Office of the Auditor General (2015).

2.1. Australia[1]

Australia has a federal system of government comprising the Australian Government, the six State governments, two Territories, and local government authorities. Australian Government functions are organised around 18 portfolio departments. The agencies and statutory entities that contribute to government activities are all associated with one of the departments.

2.1.1. Government's fiscal reporting practices

Within the Australian Government, the Department of Finance and Treasury, under the authority of the Minister for Finance, assume, among other tasks, the principal responsibility for seeking the Parliament approval on the federal economic and fiscal strategies and the budget and reporting to Parliament on the Government's operations.

The *Charter of Budget Honesty Act 1998* (the Charter) and the *Public Governance, Performance and Accountability Act 2013* (the Act) stipulates the purpose and requirements of fiscal reports to be prepared by the Department of Finance and Treasury as part of their mandates, including applicable reporting cycles. Legislation also prescribes that all fiscal reports shall follow principles and rules set out in the IFRS-based Australian Accounting Standards (AAS), with any departures from those standards to be documented.[2]

It is to be noted that while all fiscal reports are to be prepared on accrual-basis, key fiscal aggregates are presented in both accrual and cash terms in budget documents, which is consistent with presentation standards in Australia.

2.1.2. Australian Government's annual budget documents

Budget documents are prepared each year for the Australian Government (also called *Commonwealth*), which is composed of ministries and their dependant bodies, offices of the House of Representatives and Senate.[3]

The *Budget Papers* and *Mid-Year Economic and Fiscal Outlook* set out the Australian Government's economic and fiscal outlook, its economic plan and budget priorities. Budget Papers are published in May each year (two months before the start of the fiscal year on 1 July) and the Mid-Year Economic and Fiscal Outlook is published generally around November/December each year.

Budget Papers comprise the following documents:

- *Budget Strategy and Outlook*, containing information on the economic and fiscal outlook, government balance sheet and associated risks to the outlook, as well as a statement outlining its fiscal strategy (Budget Paper No. 1);
- *Budget Measures*, providing a comprehensive statement on new expense, revenue and capital initiatives in the budget (Budget Paper No. 2);

- *Federal Financial Relations*, providing information on fiscal relations with the states, territories and local government (Budget Paper No. 3);
- *Agency Resourcing*, containing information on resourcing for agencies for the current year and 3 forward years, including all moneys expected to be available including through annual appropriation acts and special (permanent) legislation (Budget Paper No. 4).

2.1.3. Australian Government's Appropriation Bills

The Government introduces three initial appropriation bills each year, due to specific constitutional provisions:[4]

- *Appropriation Bill 1* is for the ordinary annual service of government (or expenditure for existing policies);
- *Appropriation Bill 2* is for new policies, new capital expenditures and grants to the states; and
- *Appropriation Bill 3* is for continuing and new expenditures of Parliament.

A second set of Appropriation Bills ("additional estimates") are usually introduced during the fiscal year, around February.

Appropriations Bills and Budget Papers are aligned. Appropriations are indeed provided for all expenses projected in the accrual basis budget (operating expenditures, capital expenditures, and debt transactions), except for provisions related to asset depreciation and a number of long-term liabilities.

2.1.4. Australian Government's in-year and year-end reports

Australian Government General Government Sector Monthly Financial Statements are published within 30 days after the end of the month.

At year-end, the Australian Government publicly releases and tables a *Final Budget Outcome* (FBO) report no later than three months after the end of the financial year, as required by the Charter. The FBO is comprised of three parts: Part 1 provides the general government sector budget aggregates together with an analysis of the previous year's Final Budget Outcome; this includes summary analysis of cash flows, revenue, expenses, net capital investment and the balance sheet (net debt, net financial worth and net worth); Part 2 presents the Australian Government financial statements for 2015-16; and Part 3 provides details for 2015-16 on Australia's Federal Relations.

In addition, *Australian Government Consolidated Financial Statements* are completed within 5 months after the end of financial year. The Australian Government Consolidated Financial Statements consolidate individual financial statements of all levels of the Australian Government – that is Australian Government financial statements and government-controlled financial and non-financial public corporations' financial statements.

2.1.5. Departments and agencies' budget statements, plans, and annual reports

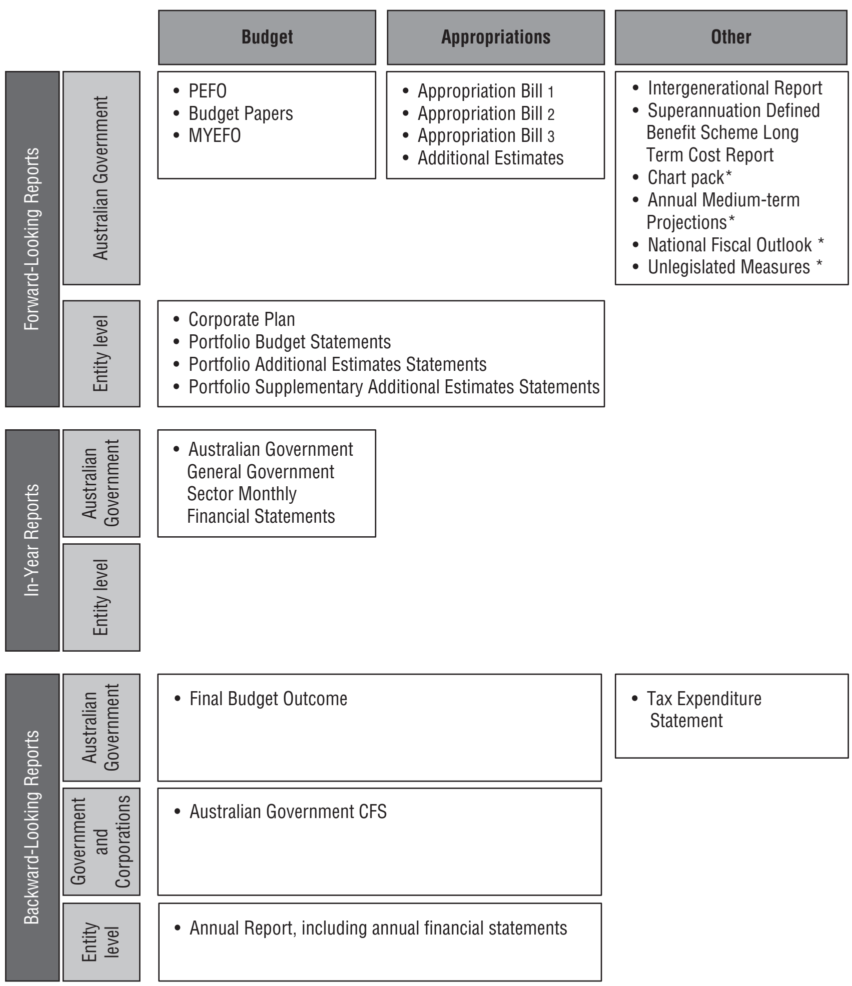
The Act adopted in 2013 and related *Public Governance, Performance and Accountability Rule 2014* have established a new performance framework for Australian Government departments and agencies.[5] The new performance framework aimed at improving the line of sight between what was intended and what was delivered.

Under the Australian Government's new performance framework, which started being rolled out in 2015, reporting entities (portfolio departments and agencies) have been required to include summary performance information in their Portfolio Budget Statements, publish a corporate plan each year and include a performance statement that reports on their performance[6] in their annual report. Existing arrangements provide for Portfolio Budget Statements to be tabled in Parliament with other budget documents (usually in early May), annual reports to be tabled in the Parliament by 15 October (over three months after the end of the financial year), while corporate plans are to be published on entity websites by 31 August (two months after the commencement of the year to which they relate).

Portfolio Budget Statements are presented to the Parliament at the same time than the Budget Papers and aid the interpretation of the Australian Government budget and appropriation bills by providing Parliament with information on what Government entities will spend government resources on and related performance information.[7] They are indicative only and do not bind the government in any way.

Annual Reports present each entity's financial statements and information on its organisational structure and significant development during the year.

Figure 2. **Australia: Main public annual fiscal reports**



*Reports published by the Parliamentary Budget Office.

Source: OECD, based on information provided by the Department of finance and Parliamentary Budget Office.

2.1.6. Other fiscal reports

The Charter requires a *Pre-Election Fiscal and Economic Outlook* to be presented within 10 days of an election being called (generally every three years). The purpose of the report is to provide updated, non-partisan information on the economic and fiscal outlook, with two statements of responsibility.

The Charter also requires that an *Intergenerational Report* be presented at least once every five years. It focuses on the implication of demographic changes for economic growth, assesses the financial implications of continuing current policies and evaluates resulting key fiscal aggregates (balance sheet and fiscal balance) over the next 40 years. It must be produced at least every five years.

Superannuation defined benefit schemes are required under *Australian Prudential Standard SPS 160* to have an actuarial investigation at least once every three years. The report examines the size of the scheme's unfunded liabilities and the timing of the projected payments (to be made over a period of decades). The report discloses information on schemes-related liabilities and assets, membership data, projected outlays, national employer contribution rates and sensitivity analysis on impact of actuarial assumptions.

The Government also publishes yearly a *Tax Expenditures Statement*, which lists existing tax expenditures and, where possible, provides an estimate of the dollar value or order of magnitude of the benefit to taxpayers.

2.1.7. Accessibility of fiscal reports and data

The fiscal reports discussed above are published on the Department of Finances and Treasury's website as PDF, and hard copies are laid down in Parliament. Data underpinning charts and tables in the Budget Papers, Monthly Financial Statements, year-end financial statements are available in MS Excel table format or CSV format online at *data.gov.au* or *budget.gov.au*.

2.1.8. Assessment of fiscal reporting practices

2.1.8.1. Government's processes and practices for estimating fiscal reports' usefulness and costs

The Departments of Finance and the Treasury seek and receive feedback on the content, forms and structure of reports from a variety of stakeholders and through various forums, including parliamentary committees. Within the Australian Government, departments' Chief Finance Officers and their audit committees also provide regular feedback.

An Australian Government entity, the *Financial Reporting Council*, is responsible for overseeing the effectiveness of the financial reporting framework in Australia.[8] Its key functions include the oversight of the accounting and auditing standard setting processes for the public and private sectors, providing strategic advice in relation to the quality of audits conducted by Australian auditors, and advising the Government on these and related matters to the extent that they affect the financial reporting framework in Australia.

It is difficult to estimate the cost of preparing each of the fiscal reports due to the wide range of stakeholders involved in the financial reporting process. Also, there is extensive integration of processes that makes identification of separate costs difficult. The cost of producing the CFS and Monthly Financial Statements for the Australian Government is however estimated to approximately AUD 2.1 million per annum. This amount relates to the Department of Finance's costs for staff whose primary function is the preparation and co-ordination of whole of government financial statements. It does not include financial management, general accounting functions, auditing financial statements and so forth.

2.1.8.2. Australian Parliament[9]

Among other duties, the *Australian Parliament Joint Committee of Public Accounts and Audit* (JCPAA) is tasked with "examining the accounts of the receipts and expenditures of the [Australian Government] including the financial statements given to the Auditor General", on behalf of the Parliament. The JCPAA also has a specific role in approving all changes to the annual report rule for Australian Government entities.[10] To fulfil this legislative duty, the Committee can initiate inquiries or conduct inquiries into matters referred to it by either House of Parliament. The JCPAA also has an oversight role on the Australian National Audit Office and Parliamentary Budget Office, as it considers nominations for the appointment of the Auditor-General and Parliamentary Budget Officer; determines the audit priorities for the Parliament and advises the Auditor-General of those priorities; and considers the Parliamentary Budget Office's work plan. It cannot, however, direct the activities of these two bodies.

In addition, the *Senate Estimates Committees* examine the Portfolio Budget Statements through scrutiny of Australian Government financial expenditure in Budget Estimate Committee inquiries three times each year. More broadly, under parliamentary standing orders for both the House of Representatives and the Senate, there is a process whereby any Committee of the Parliament may examine any aspect of agency Annual Reports, including the Annual Performance Statements. Committees have conducted past inquiries into Annual Reports. Some agency annual reports also stand referred to certain Parliamentary Committees under their Resolution of Appointment or establishment legislation. Financial reporting from the Australian Government agencies to Parliament is primarily through the budget pre and post review processes undertaken by Senate Estimates Committees. This reporting allows indeed dedicated committees to review both projected spending and actual expenditure.

The JCPAA believes that transparency is a critical principle of financial reporting within the Australian system. Achieving high levels of transparency is however challenging given the inherent complexity of the budgeting framework stemming from both the cyclic review approach and the measures based reporting framework used in Australia. The JCPAA's opinion is that the levels of transparency in financial reporting to the Parliament are high overall and support robust Parliamentary decision making when both government and audit office financial reporting is considered. Indeed, the Australian National Audit Office biannually tables in Parliament audits of the Australian Government's Consolidated Financial Statements, at both the controls and outcomes level. These reports provide additional assurance and transparency to other government-led reporting. They also provide the Parliament with up to date information on topical financial statement and accounting issues.

Improved performance reporting to enable effective parliamentary scrutiny has been one focus of the JCPAA and Australian National Audit Office audits over the last years. Following a number of past and on-going inquiries in to the new performance framework, the JCPAA believes that recent changes to performance reporting at departments' and agencies' levels are beginning to improve the transparency of information provided to the Australian Parliament.[11]

2.1.8.3. Parliamentary Budget Office

The Parliamentary Budget Office (PBO) was established by passage of the *Parliamentary Service Amendment (Parliamentary Budget Officer) Bill 2011* and commenced operations on 23 July 2012. His functions broadly consist in providing non-partisan costing of policies; answering requests from parliamentarians; and conducting independent public research and analysis on selected areas of revenue and expenditure with a focus on medium-term fiscal sustainability.[12]

The PBO does not have direct electronic access to financial data bases held by the Department of Finance or the Treasury, but financial reports, both public and some *ad hoc*, are provided on request to the PBO by the Department of Finance and Treasury. The PBO also receives the detailed annual data underpinning the Budget Papers, Mid-Year Economic and Fiscal Outlook (MYEFO) and FBO.[13] Government agencies also provide a range of detailed underlying data for each budget update.

According to the PBO, which uses fiscal report as a source of information for preparing its own analysis and forecasts, there are a number of possible improvements to the Australian Government's fiscal reporting practices.

First, the Government's financial reports provide detailed information on expenses, revenue and purchases of non-financial assets but the reporting has not adapted to the increasing use of loans and equity investments. This gap has limited the transparency of the financial impact of the acquisition of financial assets (e.g. issuing loans and providing equity for government entities) to finance government policy and programmes (e.g. National Broadband Network, Higher Education Loan Program).

Another area of potential improvement is in the provision of information on the composition of the budget over the medium-term (out to 10 years). Indeed, the government provides a budget balance over the medium term (which indicates a path to surplus) but does not provide information on the composition of the budget over this period. This limits the transparency of the budget strategy given that an increasing number of major new polices are phased in over time frames that extend beyond the forward estimates (out to four years). According to the PBO, the transparency and understanding of the budget (and associated challenges) would be enhanced by increased medium-term information in the budget papers on projections for major programmes or revenue heads, hence the publication of its *Annual Medium-term Projections* report to complement the information published by the Australian Government.

Last, the PBO notes that a complicating issue in the presentation of budget reports is the varying use of budget information on cash or accrual bases. In particular, the governments' key fiscal targets and aggregate forecasts are published on a cash basis (e.g. Statements 1 and 3 of the Budget Papers), whereas the detailed programme and budget measures information is reported on an accruals basis.

The Parliamentary Budget Office (PBO) publishes a number of fiscal reports. The role of the PBO is to inform the Parliament by providing independent and non-partisan analysis of the budget cycle, fiscal policy and the financial implications of proposals. These reports are not required by legislation, but complement the reports published by the Australian Government.

The biannual *Chart pack* report provides a visual summary of the key drivers of the budget and MYEFO and the policy decisions underpinning them. The chart pack report therefore simplifies and improves the usefulness of the published budget papers by presenting a graphical comparison of the financial impacts of policy decisions and other factors between the last and the current budget update on key revenue heads and expenditure programmes. This analysis is indeed not readily accessible in the budget documentation. The *Annual Medium-term Projections* report provides detailed projections of receipts and payments over 10 years. The report improves transparency of the budget over the medium-term by publishing 10-year projections of the main revenue heads and major spending programmes. Indeed, while aggregate medium-term projections are provided in published budget papers, these are not broken down in any detail. The *National Fiscal Outlook* brings together analysis of the budgets of federal and state and territory governments. It focusses on changes in the fiscal balance and net debt since the release of the previous budget update. There is indeed only limited analysis in existing budget papers of combined federal and state budgets.

The *Unlegislated Measures* report improves the quality and completeness of budget information by outlining the mid-term (10-year) financial impacts of unlegislated budget measures in previous budgets and mid-year updates (since the 2014-15 Budget) that have failed to pass the Parliament or require legislation that has not been passed by the announced start date. This gives an indication of the risks to the budget estimates from legislative delays.

2.1.8.4. Auditor General of Australia

The Auditor-General of Australia is an independent officer of the Parliament of Australia.[14] His/her functions and powers are defined under the *Auditor-General Act 1997*. They include auditing financial statements of Commonwealth agencies, authorities, companies and their subsidiaries in accordance with the *Financial Management and Accountability Act 1997*. It is assisted by the *Australian National Audit Office* (ANAO) in implementing its mandate.

Legislation provides the ANAO with access to the financial systems and databases of all Australian Government entities on request.

It is not the primary function of the ANAO to comment on the fiscal reporting practices of the Australian Government. However, the ANAO publishes annually two reports presenting the outcomes of the financial statement audits of Commonwealth entities, Commonwealth companies and CFS. These reports discuss, for the information of the Parliament, topical financial issues and changes to accounting methods. These reports are one of the vehicles by which the ANAO can comment, and advise on, the content and format of fiscal reports.

In particular, a ANAO's recent audit report (2015) underlined "the global push to improve the usefulness of financial reporting by making disclosures less generalised and more meaningful" and indicated that the ANAO supported "initiatives that reduce the compliance workload of Australian Government entities and make financial statements easier to read, while preserving sufficient disclosures to satisfy the needs of the Parliament".

The ANAO has also recently concluded an audit of the new entities' Corporate Plans, and has conducted a follow-up audit as part of its 2016-17 work programme. The ANAO concluded that the nine entities involved in the audit had made a solid start in implementing the corporate plan requirements, with further work required to fully embed the requirements into future plans, and noted that the Department of finance provided for rolling out the new performance system which was considered effective by a vast majority of entities.

2.1.9. Recent and on-going improvements to reports and procedures

Efforts for rationalising and simplifying the Australian Government's fiscal reports have been constant over the last decade. In particular, the *Operation Sunlight*, in 2006, improved the readability and usefulness of Budget Papers and transparency of Appropriation Bills, among other reforms. Another important initiative for simplifying the Australian Government fiscal reporting framework was the adoption of the accounting standard AASB 1049, which harmonises accounting and statistical (Government Finance Statistics) reporting practices.

More recently, extensive simplification of financial statements has been achieved by removing information that is not required by AAS or is considered immaterial from financial statements. The order and presentation of information in the CFS and AFS have also been restructured to improve readability for users of financial information. This exercise involved input from Parliamentarians, users, auditors and audit committees, departments and the Australian Accounting Standards Board under the guidance of the Financial Reporting Council. It resulted in a significant reduction in the size of financial reports, and greater clarity for users. Further simplification is now planned through the implementation of *Reduced Disclosure Requirements for entities* permitted by AAS.

In addition, the Departments of Finance and the Treasury work together to review information in relevant financial reports such as Budget Papers No. 1, 2, 3 and 4 to ensure consistent information and appropriate level of disclosure. Consequently, the structure of Portfolio Budget Statements was reviewed for the 2016-17 financial period and duplicative and redundant information was removed – that is some disclosures have been removed or rationalised where it is apparent that the information provided exceeds user needs.

2.1.10. Summary

The Australian government reporting practices, as required by legislation, employs many OECD best practices. In particular, fiscal reports cover the Australian government; budget forecasts provide a short and long-term perspective on public finances; accrual basis financial statements are published on a monthly basis and at year-end; performance information has been recently included into budget documents and has developed at departments and entities level; and external oversight is exercised by the PBO and ANAO.

Against this background, users identify few areas for improvements in current fiscal reporting practices. The PBO notes that current fiscal reports lack a medium-term perspective. The parliament attentively follows developments with the implementation of the new performance framework, as increased transparency of performance information links directly to increase the scrutiny of financial reports to Parliament.

There are many notable features of Australia's experience in the area of fiscal reporting, with the recent simplification of fiscal reports being one of the most interesting in the context of this study. Against the background of the FRC-led initiative for reducing the complexity of Australian private and public sector financial statements, the Department of finance started undertaking, under the oversight of the ANAO, a successful review of Australian Government entities' financial statements and budget papers to remove redundancies and immaterial information.

Notes

1. Case study realised from January to March 2017.

2. AAS have been aligned with the international accounting standards (IFRS based) since 2006, and AAS and Government Financial Statistics have been harmonised.
3. In addition, projections are included in the budget documentation for public non-financial corporations and public financial corporations.
4. The Parliament is a bicameral institution composed of the House of Representatives and the Senate. Bills that appropriate money for ordinary annual services of government may not be amended by the Senate. Hence appropriations that are submitted to the Senate's approval and those that are not are presented in different bills.
5. An overview of the complete enhanced Commonwealth performance framework is provided in Resource Management Guide (RMG) 130 Overview of the enhanced Commonwealth performance framework.
6. The Public Governance, Performance and Accountability Act 2013 required the first corporate plans to be published by 31 August 2015 and the first performance statements to be included in entities' 2015-16 annual reports. The Public Governance, Performance and Accountability Rule 2014 provides for the entity's purpose, operating environment, performance, capability and risk oversight and management systems for each reporting period (each year) to be covered by the plan.
7. They are composed of three sections: Section 1 – List of total Australian Government entity resourcing provided; Section 2 – Outcome and programme reporting of expenses and performance reporting; and Section 3 – Australian Government entity Financial Statements for the current year, budget year and three forward estimate years.
8. In Australia, the overall financial reporting environment for *ex-post* financial statements (including auditing) is overseen by the Financial Reporting Council. Standards for *ex-post* financial statements are set by the same process and the same body as for the private sector (AASB) and referenced to GFS where appropriate. Consistent with the transaction neutrality concept, the standards developed by the AASB are based on IFRS, with additional or modified standards only where necessary to give effect to significantly different public sector circumstances. (Financial Reporting Council: *www.frc.gov.au/files/2014/01/Paper-public-sector-2012.pdf*).
9. Answers to the OECD's questionnaire were provided by the Australian Parliament Joint Committee of Public Accounts and Audit (JCPAA). The JCPAA indicated that general information relevant to other parliamentary committees has been included where possible.
10. The detailed legislative duties and powers of the JCPAA are contained within the following acts of parliament: Public Accounts and Audit Committee Act 1951 (PAAC Act); Auditor-General Act 1997; Parliamentary Service Act 1999; and Public Governance, Performance and Accountability Act 2013. One major duty of the JCPAA is to examine all reports of the Auditor-General on behalf of the Parliament, including performance audit reports and financial statement audit.
11. For example the Inquiry into Public Governance, Performance and Accountability Act 2013 Rules Development in 2014, Inquiry into Development of Commonwealth Performance Framework in 2015, Commonwealth Performance Framework – Inquiry based on Auditor-General's reports 6 (2016-17) and 31 (2015-16).
12. The PBO detailed functions are set out in the Parliamentary Service Act 1999.
13. Including economic and demographic parameters; information on the derivation of the aggregated financial statements; the financial impact of government policy decisions; and budget adjustments as well as unpublished data for individual revenue heads and expenditure programmes.
14. Section 8A of the Public Accounts and Audit Committee Act 1951, jointly with the Auditor-General Act 1997, provides that the Committee must approve or reject any nomination to fill the positions of Auditor-General and Independent Auditor (a person appointed on a part-time basis from the private sector to serve as external auditor to the ANAO). This power, and the Auditor-General's status under his/her Act as an Independent Officer of the Parliament, reflect the fact that the Auditor-General's primary client is the Parliament rather than the executive.

Selected References

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Commonwealth of Australia, Department of Finance and Deregulation (2012), *Sharpening the Focus: A Framework for Improving Commonwealth Performance*, Canberra, Australia.

Financial Reporting Council (2012), Managing Complexity Report, Canberra, Australia.

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2.2. Canada[1]

Canada is a federal country comprising the federal government, ten provinces, and three territories, among which government functions, expenditure jurisdictions and revenue powers are divided. Federal government functions are carried out by 20 departments and 111 other appropriation-dependent organisations, including agencies and Crown corporations, under the responsibility of 29 ministers.

2.2.1. Overview of government fiscal reporting practices

Within the federal government, the Minister of Finance has primary responsibility for the formulation of macroeconomic policies, managing the fiscal framework, and reporting to the Parliament on the federal government financial operations. Under him, the Department of Finance is responsible for general economic affairs and the fiscal policy framework.

The *Financial Administration Act* establishes the Treasury Board as a permanent committee of Cabinet, under the authority of the President. The legislated mandate of this committee includes *inter alia* the financial management and expenditure management of government. In this context, the Treasury Board of Canada Secretariat (TBS) is responsible for recommending to Treasury Board the appropriate resource levels for federal government programmes, as well as for financial management and the preparation of accounts.[2]

In Canada, the fiscal year runs from April 1 to March 31. The *Business of Ways and Means* is the process by which the government sets out its economic policy (through the presentation of a budget) and obtains parliamentary approval to raise the necessary revenues (through taxation).[3] In addition, the government asks Parliament to appropriate (or authorise) the funds required to meet its financial obligations through the process known as the *Business of Supply,*[4] with either the appropriation acts associated with the Estimates or with separate legislation.

The principles governing these processes are defined in the Constitution, the Financial Administration Act as well as the *Standing Orders* of the House of Commons. However, the fiscal reports discussed below do not have any legislative basis, with the exception of the Public Accounts and the quarterly financial reports, both defined in the *Financial Administration Act*.

2.2.2. Federal government budget

There is no fixed Budget date in Canada, but the Budget is usually presented to the Parliament before the start of the fiscal year, in March or February.

The Budget is the document in which the Government details its economic forecasts, policy priorities, planned spending and revenue sources over its two-year planning period. More specifically the Budget includes:

- Review of recent economic developments and discussion of the current economic outlook;
- Announcement of new spending initiatives and new tax measures;
- Fiscal plans showing how much revenue the government expects to collect and how much it intends to spend presented on accrual basis; and
- The government's Debt Management Strategy.

In some cases, new spending initiatives may receive legislative approval as part of the Budget discussion, through a *Budget Implementation Act*. However, the Budget Plan and the Economic and Fiscal update have no legal authority in themselves, as the Government's new proposals for programme spending receive funding approval from the Parliament through the supply process; spending through tax measures is enabled through "ways and means".

In the fall, the government presents to the Parliament an update to Budget information and forecasts in the *Economic and Fiscal Update*. The fall update is also part of the next year's budget preparation cycle.

2.2.3. Federal government estimates

In Canada, the parliamentary calendar is divided into three supply periods, during each of which the President of the Treasury Board presents *Estimates* documents to the Parliament. Estimates documents are the basis for the vote by the parliament of *Appropriation Acts*, which specify the amounts and purposes for which funds can be spent by the government. The appropriations for the Main Estimates are sought through the *Interim* and *Full Supply Bills*.

Main Estimates are typically tabled in February; *Supplementary Estimates* (A) in May; *Supplementary Estimates* (B) in October or November; and *Supplementary Estimates* (C) in February. Supplementary Estimates include funding requirements not sufficiently developed in time for inclusion in the Main estimates, or unforeseen spending.

Estimates documents comprise of three parts:

- Part 1, the *Government Expenditure Plan*, is an overview of the federal spending and summary of the key elements of the Estimates;
- Part 2, the *Main Estimates,* lists the planned spending by appropriated organisations for the upcoming fiscal year on a cash basis. Roughly one third of this spending is authorised by Parliament through the related appropriation act. These appropriations are voted by nature (operations, capital, and transfers).
- Part 3, the *Departmental Expenditure Plan*, is composed of *Departmental Plans (DPs)* and Departmental Results Reports (DRRs) for each department and agency (see below).

Future-oriented statements of operations are accrual based budget forecast prepared by each organisation that publishes a Departmental Plan.

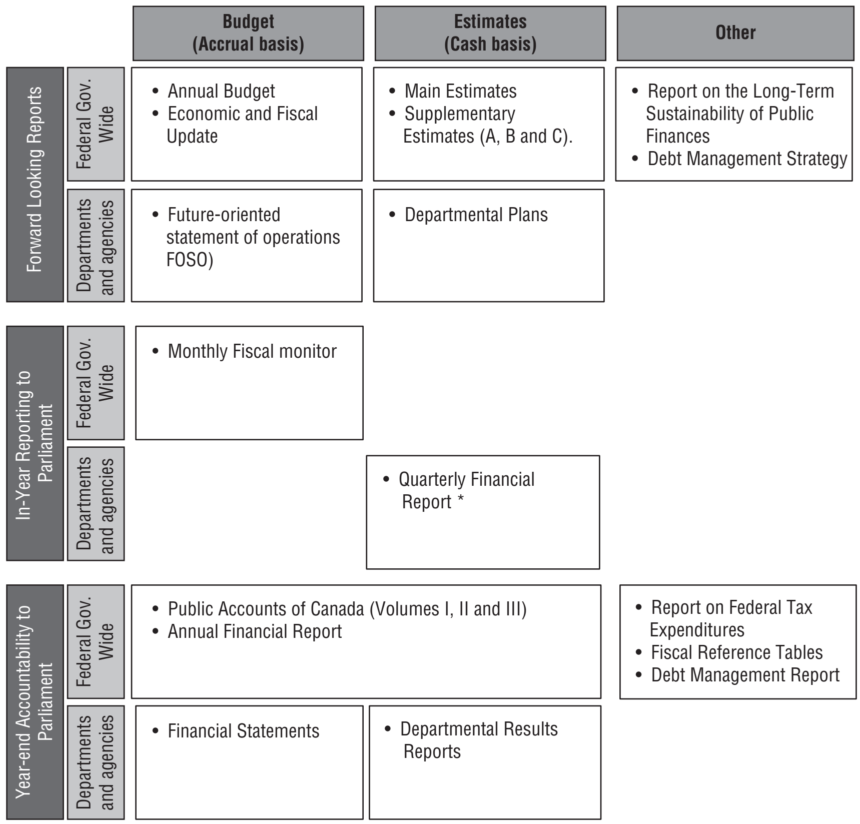
2.2.4. In-year fiscal reporting

In-year outturns are published both with regards to budget (accrual-basis) and appropriations (cash-basis):

- The Department of Finance publishes monthly an aggregated in-year budget outturn, the *Monthly Fiscal Monitor*. This report provides an overview of, deficits, revenues and expenses;
- The Financial Administration Act has required since 2009 that departments, agencies and Crown corporations prepare and make public quarterly financial reports beginning in fiscal year 2011-12. They are published in each department's, agency and Crown corporations website within 60 days of the end of the reporting period.

Quarterly financial reports for departments and agencies consist of cash-basis financial tables comparing planned and actual expenditures for both the quarter and year-to-date as well as comparative information for the preceding fiscal year. Each report

Figure 3. **Canada: Main Public Annual Fiscal Reports**



* Crown corporations establish their Quarterly Financial reports on accrual basis.

Source: OECD, based on information from the Treasury Board of Canada Secretariat and Office of the Auditor General of Canada.

includes spending authorities granted through the Main and Supplementary Estimates as well as any allotment transfers approved by the Treasury Board that have become available for use by the institution at the end of the quarter. Quarterly financial reports also contain a narrative section which provides a concise discussion on the significant changes affecting both the quarter and year to date financial results, and changes in relation to operations, personnel and programmes.

2.2.5. Year-end fiscal reporting

The *Public Accounts of Canada* are the government's annual report on how it has performed against its forecast (the Budget) and how it has spent the funds appropriated by Parliament, which is required by the *Financial Administration Act* (FAA). They are prepared by TBS.

They are divided into three volumes:

- Volume I contains the *Consolidated Financial Statements of the Government of Canada* (CFSGC), which include, in addition to "traditional" financial statements, a budget column showing actuals against the original annual Budget Plan prepared by the Department of Finance. It also contains a Financial Statement Discussion and Analysis section;
- Volume II presents departments' and agencies' cash-basis financial tables comparing planned and actual usage of the appropriations authority voted by Parliament;

- Volume III provides detailed information and analyses which are either required by the Financial Administration Act (FAA), Treasury Board Policies or Directives, or are requested by Parliamentary Committees.

In addition to the above, the Department of Finance prepares an *Annual Financial Report*, which includes condensed consolidated financial statements of the Government of Canada. Individual Financial Statements are also prepared by each department at year-end, but they are not audited.

2.2.6. Departmental plans and results reports

Departmental Plans are individual department and agency reports that describe departmental priorities, core responsibilities, and programmes, and their expected results and associated resource requirements, covering a three-year period beginning with the year indicated in the title of the report. This year (2017-18) TBS has placed an increased focus on ensuring departments include any past evaluation results that may support the achievement of planned results. Alternatively, if past evaluation results noted challenges in achieving expected results, departments are to include lessons learned.

Departmental Results Reports are individual department and agency accounts of actual performance, for the most recently completed fiscal year, against the plans, priorities and expected results set out in their respective *Departmental Plans*. *Departmental Results Reports* inform parliamentarians and Canadians of the results achieved by government organisations for Canadians. They are tabled in parliament as part of the Estimates documents.

These reports are meant indeed to inform Parliament and Canadians on what departments do and what they are trying to influence.

Over the last five years, the consistency of the presentation of information has improved between the Main Estimates and the Departmental Plans (formerly Reports on Plans and Priorities) and Departmental Results Reports (formerly Departmental Performance Reports). In addition, TBS has also shortened the time between the tabling of the Main Estimates and the Departmental Plans so that Parliamentarians can inform their reviews using the detailed planned results of the department.

2.2.7. Tax expenditure report

Department of Finance prepares annually the Report on Federal Tax Expenditures, which is presented to the Parliament, usually in March.

This document reports on the estimated fiscal cost of federal tax expenditures, sets out the approach used in developing these estimates and projections, and provides description of each measure and its objectives. Information being provided also includes legal references, historical information, as well as references to key federal government spending programs that are relevant to the policy area of the tax expenditure.

2.2.8. Report on the long-term sustainability of government finances

The Parliamentary Budget Officer has provided an annual fiscal sustainability assessment since 2010. The PBO's report assesses the long-term sustainability of government finances for three government sub-sectors: The federal government; subnational governments consisting of provinces, territories, local, and aboriginal governments; and, the Canada and Quebec Pension Plans.

In addition, since 2013, the Department of Finance has periodically produced a report on long-term sustainability of federal government finances.

2.2.9. Accessibility of fiscal reports and data

There has been a steady movement to electronic dissemination of reports and data products in Canada. For example, while printed copies of Estimates are formally tabled in Parliament, the more general distribution of this information is done through the Government's website.

In addition, in response to a parliamentary committee's recommendation, the government launched in 2013 an online database that contains information on departmental spending by type of expense and programme. This marked a significant evolution and modernisation of government's reporting practices.

2.2.10. Users' and auditors' assessment of fiscal reporting practices

2.2.10.1. Government's processes and practices for estimating fiscal reports' usefulness and costs

TBS does not have any process in place to seek systematic feedback from users. It however receives regular feedback from parliamentary committees and auditors as discussed below.

Department of Finance and TBS do not estimate the overall cost of producing fiscal reports discussed above. Such an estimate would include costs of department of finance, TBS, but also agencies and departments involved in the production, which are currently not available. A 2015 report by the Office of the Auditor General (OAG) that focussed mainly on internal government reporting noted that there was little knowledge about the effort or costs involved in reporting practices. It recommended that the Quarterly Financial Reports be reviewed to assess whether there are more efficient ways of meeting the quarterly accountability requirements established in the *Financial Administration Act*. Upon the competition of the review in 2016, the Treasury Board Secretariat provided an update to Parliamentary committees. Given that the reporting requirements stem from legislation and ensure transparency on a quarterly basis, the recommendation was to seek Parliamentarians' views on the discontinuation of departmental quarterly financial reports and on steps to be undertaken by TBS, such as modifications to InfoBase, to ensure that there is no reduction in transparency in financial reporting as a result of this proposal.

2.2.10.2. Parliament

Within the House of Commons, three Standing Committees have mandates for reviewing specific elements of government fiscal reports:

- The House of Commons Standing Committee on Finance (FINA) has the responsibility to consider budgetary policy. Among other tasks, FINA is authorised to consider and report on proposals regarding the budgetary policy of the government;
- The House of Commons Standing Committee on Public Accounts (PACP) reviews, among other tasks, the work of the federal government's external auditor and examines financial and/or accounting shortcomings raised by the Auditor General on the Public Accounts of Canada or other financial statements;[5]
- The House of Commons Standing Committee on Government Operations and Estimates (OGGO) has the mandate to review the process for considering the estimates and supply,

and the format and content of all estimates documents, as well as reviewing spending proposals of government organisations that are not referred to subject-matter standing committees.

As part of their mandates, all three committees conduct regular studies and analysis and may present reports to the House of Commons that include recommendations to the government for improvements in fiscal reporting.

In addition, the Senate Standing Committee on National Finance (NFFN) is responsible for the in-depth examination of all the Government's spending proposals reflected in the Estimates and in Budget measures.

In particular, two recent reports provided important and detailed recommendations on how to improve government fiscal reporting practices.

In 2010, PACP published a study in which it identified gaps in departments and agencies performance reporting which made it more difficult for parliamentarians to hold the government to account for its spending and the performance of its programs. PACP noted in particular, in agreement with OGGO and FINA that DPRs should:

- include clearer and more concrete performance targets that are directly related to the expected performance of programmes;
- more clearly demonstrate the link between departmental activities, expected results, and actual performance; and
- provide more detailed explanations about the methodology used to present results and, where programme performance was less than expected, explain why, and discuss what steps were taken to modify programme design and delivery in order to improve performance.

In a 2012 report, OGGO argued that the current vote structure made it difficult for parliamentarians to track spending and to understand government's operations, and "[did] not serve parliamentarians well". The report identified specific issues to address for improving the usefulness of the Estimates and Supply documents tabled in Parliament:

- Harmonising the presentation of the budget and estimates, as the former presents policy initiatives (or programmes), while the later present appropriations by institution and nature (operating, capital or transfer);
- Harmonising the recording basis of budget and estimates, as budget is forecasted on accrual-basis while estimates are voted on cash-basis, generating significant reconciliation issues; and
- Revising the timetable for tabling budget and estimates documents, in order to address the recurring problem of having new policy initiatives set out in the Budget not included in the Main Estimates for the same year.

As part of this study, Parliament's Standing Committees indicated that they could not assess the usefulness of some fiscal reports because they rarely used them during the course of their work. The reports mentioned are as follows: Quarterly Financial Reports, Update of Economic and Fiscal Projections, Tax Expenditures Report, the Debt Management Report, Debt Management Strategy, Fiscal Reference Tables, and Departmental Audits and Evaluations.

2.2.10.3. Office of Parliamentary Budget Officer

The Office of Parliamentary Budget Officer's (PBO) mandate is to provide independent analysis to Parliament on the state of the nation's finances, the government's estimates and trends in the Canadian economy; and upon request from a committee or parliamentarian, to estimate the financial cost of any proposal for matters over which Parliament has jurisdiction. To carry out these functions, the Federal Government shares detailed monthly data from its financial IT system, in which all federal departments' budget execution data is reported.

While it is not a primary function of the PBO to assess the quality of fiscal reports produced by the government, comments on the presentation of fiscal reports and improvements of the business of supply are provided in a number of its reports. This is explained by the fact that these reports are the basis on which the PBO constructs its own analysis and reports.

For instance, the PBO assists parliamentarians in their pre-budget and budget deliberations by publishing regular reports that discuss the Government's Fall Economic Statement, Budget, Estimates, and Supplementary Estimates. These reports both comment on the Government's assumptions and assessments on the fiscal and economic situation and identify changes or potential issues with the presentation of forecasts and plans. Positive changes recently underlined include the incorporation of several new budget measures and publication of a reconciliation table in the 2016 Supplementary Estimates (A). Issues underlined recently include the lack of reconciliation between the main budget documents (e.g. "Canadian Economic Outlook" and Budget 2016).

The PBO also dedicated resources since 2010 to the monitoring of budget execution among the Government's roughly 400 programs. This support of parliamentary scrutiny of spending was considered necessary due to issues with the comparability of in-year fiscal reports (the Monthly Fiscal Monitor is prepared accrual basis, while appropriations outturns are presented on cash basis). It was also an answer to Parliamentarians desire to benefit from an independent analysis on whether the Federal Government was on track to implement its overall spending commitments for the current fiscal year. The PBO's analysis is presented in its *Expenditure Monitor* reports, which are released quarterly.

In 2016 the PBO also published a report which discusses the government's reforms to the Business of Supply, and considers how these could be further improved against the core principles of parliamentary review of spending.

2.2.10.4. Office of the Auditor General

Among other tasks, the Office of the Auditor General (OAG) performs annual external audits on the CFSGC and financial statements prepared by certain government entities.[6] The OAG's role and obligation as external auditor are to express an opinion as to whether the consolidated financial statements of the Government of Canada present fairly information in accordance with stated accounting policies of the federal government, which conform with Canadian public sector accounting standards, and on a basis consistent with that of the preceding year together with any reservations.[7, 8]

As part of its annual audit of the consolidated financial statements, the OAG prepares a report of *Observations of the Auditor General of Canada* on matters we want to bring to Parliament's attention. Such matters have included, over the last years, the reliability of national defence inventories and measurements of liabilities for government-owned contaminated sites – that is sites that do not meet environmental standards.

The OAG views the accrual-basis financial statements prepared by the Government and other entities as promoting transparency, as well as accountability of public managers.

With regards to the latter, for example, the OAG notes that CFSGC always include a *Statement of Responsibility* which is signed by the Secretary of the Treasury Board of Canada, the Deputy Minister of Finance, Deputy Receiver General for Canada and the Comptroller General of Canada. This Statement requires management to take responsibility for the integrity and objectivity of the Consolidated Financial Statements. In addition, the Deputy Heads and the Chief Financial Officers within each federal department are responsible for ensuring the accuracy and completeness of the financial information of their Department that is included in the Consolidated Financial Statements of the Government of Canada.

It is to be noted that while the OAG is not directly involved in the Business of Supply, it issued a guidance paper on *Examining Public Spending* to assist parliamentarians.

To perform its audits, the OAG has direct access to the Government of Canada's Central Financial Management Reporting System (CFMRS). The various departments of the Government of Canada are to submit required monthly a summary of departmental financial transactions (trial balance) and the OAG has the ability to view the information submitted by each department. In addition, the OAG has arrangements with various Departments of the Government of Canada, where monthly downloads of transactions recorded in departments' financial systems are transmitted to the OAG. This allows the OAG to view transactions in a timely basis, select samples for audit and analyse financial data as part of its audit planning.

2.2.11. Recent and on-going improvements to reports and procedures

The Government issued in 2016 a document with four proposals to further improve the Business of Supply in response to Parliament's concerns (see above), which are as follows:

- Delay the release of the main estimates to ensure that all new policy initiatives voted in the budget are included;
- Develop a table that reconciles the cash-based Estimates to the accrual-based budget document;[9]
- Implement a pilot exercise to vote appropriations on a "purpose-based" basis for a number of institutions (departments and agencies);[10]
- Provide higher quality information on performance targets and results in departments' and agencies' Departmental Plans and Departmental Results Reports, and publish this data online.

In addition to Parliament-driven reforms discussed above, TBS makes on-going efforts to improve the presentation and quality of information provided to Parliament. For example, over the past five years, TBS made several changes to the Estimates documents to simplify their presentation, improve the completeness of their financial and non-financial information, and make the reports more useable for Parliamentarians and Canadians. For example, in 2015-16 the final Supplementary Estimates introduced new information on planned lapses (frozen allotments); presentation in the Public Accounts was also adjusted to provide an easier read between the planned and actual expenditures of departments.

Notes and commentaries to the financial statements are also revised to adhere to changes in accounting standards and/or internal developments. Recommendations from the Office of the Auditor General in areas where there is an element of judgement such as significant transactions or measurement uncertainty may also result in refinement of notes.

2.2.12. Summary

Canada's fiscal reporting framework employs many OECD best practices. In particular, fiscal reports cover the whole of the federal government; forecasts provide a short, medium and long term perspective on public finances; budget outturns are available on a monthly basis; reports submitted to Parliament are prepared on both accrual and cash bases; and external oversight is exercised on both forecasts and accounts, by institutions – the PBO and the OAG – that have comprehensive access to government financial data.

Information on the cost of producing fiscal reports has not been provided for this study, and the government has no regular process in place for collecting users' feedback. Users play however an active role in improving fiscal reporting in Canada. The Parliament developed expertise which allows identifying specific, precise issues with government's fiscal reports and plays a major role in reforming the fiscal reporting framework. Other stakeholders, the PBO and OAG in particular, provide regular feedback on fiscal reporting usefulness and quality, as illustrated by recent reports. Government and Parliament are engaged in a sustained dialogue on fiscal reporting's usefulness to users and in the process of building a common view on how to fix perceived issues.

Users identify areas for improvements in fiscal reporting practices. Canada has not yet aligned the items appearing in the Budget and the Estimates and experiences issues with communicating the reconciliation of accrual and cash budget figures. The Government still has to broaden the application of "purpose-based" budgeting, and aims at providing higher quality information on performance targets and results.

Widespread access to fiscal reports provided through government websites is one notable feature of the fiscal reporting framework in Canada. TBS InfoBase is used to transform the way fiscal information is delivered to the audience: The presentation and content departmental reports are simplified with lower-level financial and non-financial details available online. The fiscal reporting framework is conceived as an integrated set of reports and financial data.

Notes

1. Case study realised from January to March 2017.
2. The TBS prepares the accounts jointly with the Receiver General for Canada.
3. *www.parl.gc.ca/About/House/compendium/web-content/c_d_businesswaysmeans-e.htm*.
4. *www.parl.gc.ca/About/House/compendium/web-content/c_d_businesssupply-e.htm*.
5. The PACP tasks also involve reviewing performance audits.
6. Such as Crown Corporations, Departmental Corporations, Revolving Funds, the Canada Pension Plan. The OAG is also the external auditor of Canada's territorial Governments which are not included within the federal Government reporting entity. These include the Northwest Territories, Yukon and Nunavut.
7. The Consolidated Financial Statements include a budget column which the OAG agrees to the original annual Budget Plan that is prepared by the Department of Finance. The OAG does not however perform any audit work over the data or assumptions that are used to create the budget.
8. The OAG issues a separate independent auditor's report with respect to Annual Financial Report prepared by the Department of Finance, which it audits to ensure alignment with the consolidated financial statements included in the Public Accounts of Canada. Both the Public Accounts and the Annual Financial Report includes other information which the OAG reviews as part of its audit to ensure consistency with the audited consolidated financial statements.
9. This was done in the 2016-17 Estimates.

10. Transport Canada has piloted a program-based voting structure since the 2016-17 Main Estimates that will be helpful in determining whether and how to move further towards a programme-based vote structure.

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2.3. France[1]

2.3.1. Overview of government fiscal reporting practices

In France, the lead in central government's fiscal matters rests with the Ministry for the Budget. The Ministry for the Budget is divided into directorates, among which the Budget Directorate (*Direction du budget*, or DB) and Public Accounting Directorate (*Direction générale des finances publiques*, or DGFiP). The Budget Directorate is responsible for medium-term forecasts and annual budget preparation and the budget execution's monitoring. The Public Accounting Directorate is responsible for financial management (in particular, disbursements of funds as part of the budget execution) and preparation of accounts.

The purpose and requirements of most fiscal reports prepared as part these functions are stipulated by the French Constitution and recent legislation. The 2001 Organic Budget Law (*Loi organique relative aux lois de finances*, or LOLF) and 2012 Organic Fiscal Governance Law (*Loi organique relative à la programmation et à la gouvernance des finances publiques*, or LOPGFP) defines precise principles applying to central government on all fiscal matters, including budget content and presentation and required information for year-end accountability to Parliament. The 2012 Regulation on Public Management (*Décret n° 2012-1246 du 7 novembre 2012 relatif à la gestion budgétaire et comptable publique*, or RGBCP) details these principles and provides guidance, among other topics, for establishing fiscal reports.

The fiscal year, which runs from 1 January to 31 December, is structured around three main cycles in Parliament: i) the discussion of the medium-term forecasts, ii) the budget approval, which takes place from October to December; and iii) the accountability to Parliament, which takes place from April to May. Core fiscal reports are published as part of these three cycles.[2]

Most fiscal reports established by the Ministry for the Budget cover the "State" expenditures – that is ministries and a limited number of other public bodies (for example, the Louvre Museum). They are prepared on cash and commitment basis. There are a number of exceptions though, such as year-end financial statements, which are prepared on accrual basis, or the Public Finances Framework Law, which covers the general government – that is public agencies, social security funds and local government in addition to the State.

2.3.2. Medium-term forecasts

The Public Finances Framework Law (*Loi de programmation des finances publiques*) is discussed in September in Parliament, every other year.[3] This sixty-page long document is a medium term expenditure framework (MTEF), which defines public finances policies, targeted levels of general government's cyclical and structural balances, and evaluates future debt levels based on these targets. The targets are set for each of the following sectors: ministries, public agencies, social security funds and local government. The MTEF's time horizon is at least 3 years and has spanned so far 3 to 5 years.

It sets binding ceilings for State's expenditures over the first two years, and indicative ceilings for the years after.

Figure 4. **France: Main Public Annual Fiscal Reports**

	Required by national legislation	Other requirements
Medium-Term Forecasts	• Preparatory Budget Report	• Stability Programme* • National reform Programme*
Annual Budget	• Budget Bill, and its appendices • Supplementary Budget Bill(s)	• Draft Budget Plan*
In-Year Reporting to Parliament	• Monthly budget outturn (Public Accounting Directorate and Budget Directorate)	• Monthly Budget Outturn (Budget Directorate)
Year-end Accountability to Parliament	• Annual Budget Outturn • Budget Execution Law, and its appendices including the Central government financial statements	• Annual Reports of Principal Budget and Accounting Officers • National Accounts

* Reports submitted to the European Commission as part of the European Semester.

Source: OECD, based on information from Ministry for the Budget and the Public Finance Committee of the Senate.

2.3.3. Annual budget documentation

In line with the ceilings set in the Public Finances Framework Law, the Preparatory Budget Report (*Rapport préparatoire au débat d'orientation budgétaire*, or DOFP) announces to the Parliament the main changes to the government's economic and fiscal policies, expected path of the State's finances for the next fiscal year and sets provisional ceilings on public expenditure. This report, presented to the Parliament before 30 June each year is a landmark for the submission of the Budget Bill to the Parliament later in the fiscal year.

The Budget Bill (*Projet de Loi de finances initiale*, or PLF) is presented to the Parliament on the first Tuesday of October. The Budget Bill' purpose is to get Parliament's authorisation for raising government revenue and spending public money. To this purpose, a series of new policies, such as new taxes or changes in entitlement programmes, are submitted to Parliament's approval. The fiscal impact of these new policies is forecasted in the so-called "equilibrium provision" of the Budget Bill, presenting gross revenue, expenditure, and related fiscal deficit and borrowing requirements for central government and demonstrating the compliance of the Budget Bill with existing targets and rules.

Along with the Budget Bill, Performance Plans (*Projets annuels de performance*, or PAP, also called *Bleus budgétaires*) are sent to the Parliament. These documents detail appropriations submitted to Parliament's approval by public policy (*missions*), programmes and actions.[4] Within each mission, programme and action, appropriations are further detailed into headings (such as current expenditure, capital expenditure, wages and transfers) and categories. Performance Plans also provide a rationale for all expenditure (so called *Justification au premier euro*) as well as a cost analysis for each programme. Last, performance targets and indicators are assigned to all proposed appropriations both at mission and programme levels.

The Parliament is provided with of additional information to inform its budget discussion, in Budget Bill's appendices:

- Orange Books and Yellow Books (*Oranges budgétaires* and *Jaunes budgétaires*) provide specific information to inform the Parliamentary debates. For example, they analyse in detail levels of appropriations in favour of specific beneficiaries (such as transfers to public agencies), aggregate appropriations allocated to different ministries for implementing shared public policies (for example, fight against drug traffic or promotion of tourism), and present the results of spending reviews undertaken by the Budget Directorate[5];
- The Economic and fiscal report (*Rapport économique et financier*) gives economic and fiscal forecasts (incl. assumptions and methodologies), analyses trends for central government revenue and spending, and explains financial flows between public entities. It also includes the draft budget plan submitted to the European Commission;[6]
- The *Ex-ante* assessment of new measures (*Evaluation préalable des articles de la loi de finances*) is a detailed presentation and assessment of new revenue and spending measures, including their medium-term financial impact;
- The Ways and means report (*Voies et Moyens*) outlines revenue sources, in particular taxes, and describes and evaluates tax expenditures;
- The Well-being indicators report (*Nouveaux indicateurs de richesse*) complements the Economic and fiscal report with health, environment or education indicators.

2.3.4. In-year budget outturns

The Public Accounting Directorate is required by legislation to publish monthly budget outturns (*Situation mensuelle de l'État*, SME). These documents report and comment on central government's cash movements; financial commitments; cash position, and debt level. Spending outturns are presented similarly to the budget (i.e. by public policy, programme, heading and category). A similar, but shorter, document (*Situation mensuelle du budget*, or SMB) is also prepared by the Budget Directorate.

2.3.5. Year-end fiscal documents

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

The main accountability document at year-end is the Budget Execution Law (*Loi de règlement*, or LR), which reports all financial operations undertaken by the central government during the fiscal year. The law shows final budget outturns by mission and programme against parliamentary authorisation, the cash basis deficit or surplus, and accrual basis profit or loss. It is presented to the Parliament in May.

There are two sets of appendices to the Budget Execution Law:

- Performance Reports (*Rapports annuels de performance*, or RAP, also called *Rouges budgétaires*) provide detailed schedules of government expenditure outturns and performance results, against initial Performance plans;
- Audited State financial statements (*Compte Général de l'État*, CGE) provide accrual basis financial data, commented in a Management report (*Rapport de presentation*). The State financial statements includes sector information, which is not comparable with missions and programmes; and
- A number of other reports, such as reports on apportioned revenue (*comptes spéciaux*) or specific budgetary funds (*budgets annexes*).

2.3.6. Other fiscal reports

Annual Reports of Principal Budget and Accounting Officers (*Rapport annuel du contrôleur budgétaire et financier*) identify and discuss fiscal and financial risks at the ministries level. These reports are communicated to Ministers, Parliament, and the Court of Account, but are not available to the general public.

2.3.7. Accessibility of fiscal reports and data

All fiscal reports are published on the Ministry for the Budget's website as PDF, and hard copies are laid down in Parliament.

Selected budget data is available on the government's open database.

2.3.8. Users' and auditors' assessment of fiscal reporting practices

2.3.8.1. Government's processes and practices for estimating fiscal reports' costs and usefulness

The Ministry for the Budget does not estimate the overall cost of producing the fiscal reports discussed above.

The Public Accounting Directorate however indicates that 2 500 public accountants are tasked with maintaining the accounts and performing mandatory controls before disbursements of funds. The Directorate's resources were not increased, following the adoption of accrual accounting, as productivity gains generated by the new financial IT system (so called Chorus) and the re-engineering of business processes compensated over time for the additional work charge. Similarly, in the Budget Directorate, productivity gains were achieved following the roll-out of a new IT system for generating the budget documents such as the Performance Plans and Performance Reports.

Each year, the Budget Directorates undertakes a formal survey of parliamentarians' satisfaction with budget documents, and collects suggestions for improving documents and reporting practices. The latest survey (2016) shows that the bulk of parliamentarians (87%) are satisfied with the completeness, quality and transparency of the information provided. Public Finances Committees in the National Assembly and Senate also provide regular informal feedback on the merits and limits of fiscal reports.

2.3.8.2. Senate's Public Finances Committee[7]

The 49 members of the Senate Public Finance Committee ("the Committee") are tasked with the oversight of all budget-related matters within the central government, among other tasks. This entails performing an annual in-depth review of budgetary legislation (Stability Programme, Budget Bill, Supplementary Budget Bill, and Budget Execution Law), controlling the budget execution, and assessing the compliance of new legislation with fiscal targets and rules.[8] The Committee has authority for launching discretionary inquiries on all budget-related matters. These inquiries are undertaken either directly by the Public Finances Committee or by the Court of Account, at the Parliament's request.[9] Inquiries' results are presented in Parliamentary reports.

The Committee is granted by legislation unlimited access to all data and reports on budget-related matters.[10] However, it does not have direct access to central government's financial IT system. The Committee therefore receives regular information from the Ministry for the Budget, among which public budget documents discussed above and in-year information on cancellations or transfers of appropriations (around 80 times a year). The Committee's members also have authority for sending questionnaires to ministries, which ministries are legally bound to answer.

Overall, the Committee considers that it is provided with timely and complete information on central government's financial operations. It also underlines that the Ministry for the Budget addresses a number of concerns expressed by the Parliament (for example information on the financial situation of public agencies, and government's transfers, has been significantly improved over the last years). However, issues with fiscal reporting remain.

The Committee notes that the current format and content of budget documents limits their usefulness. For example, tables presented in the Budget Bill do not always include totals; information on variations of missions and programmes' scope is not provided systematically, hence making difficult to analyse variations of appropriations' levels; available financial information, such as the amount of pending payments, is not clearly disclosed; information on some government financial operations, such as tax expenditures, remains too limited.

Programmes' sizes vary significantly (the largest programme amounts to EUR 100 billion, while the smallest amounts to EUR 0.5 million), but information provided in the Budget Bill is not adjusted accordingly. For largest programmes, financial information, as well as performance indicators, should be detailed further for efficient Parliament scrutiny.

Performance evaluation has not reached yet the level of quality expected by Parliament. Performance targets' relevance and quality are uneven. Performance results are not systematically available at year-end (in 2015, issues were identified on around 10%

of performance targets and indicators; either targets or indicators were not set at programme level, or indicators' results were not reported). The Committee also notes that political endorsement of performance targets and results remains limited, which may explain the weaknesses mentioned above.

Last, the Committee notes that financial information is mostly provided in PDF documents, which does not allow performing data analysis. For example, accrual basis financial statements show only aggregated figures, and are consequently of limited use while detailed accrual financial data would be useful to the Committee's work. Overall, the Committee underlines that its working practice could significantly improve if all financial information was made available on the government open database.

Against this background, questionnaires to ministries are the Committee's preferred means for gathering financial and performance data. Indeed this allows for receiving targeted information, which would be unavailable at the requested level of detail, or difficult to find, in existing budget documents.

2.3.8.3. Court of Accounts

Among other tasks defined by legislation, the French Supreme Audit Institution, the Court of Accounts (*Cour des Comptes*), is in charge of:

- assessing the situation of central government's, social security funds' and local government's finances; and
- assisting the Parliament in its oversight of the implementation of central government's and social security funds' Budget Acts;
- auditing the central government and social security funds financial statements.[11]

In this capacity, the Court of Accounts publishes three main sets of reports:

- The Report on the Situation and Outlook for Public Finances (*Rapport sur la Situation et les perspectives des Finances Publiques*), published in June, analyses fiscal statistics' key aggregates and identifies risks that may cause deviations from targets set in the Public Finances Framework Law;
- The Budget execution audit report (*Rapport sur le Budget de l'État*) is published in May each year, when the Budget execution Law is tabled in Parliament. It assesses budget execution and performance results, and is published along with 60 Budget execution audit notes (*Notes d'execution budgétaire*), which provide detailed analysis on each public policy. The notes comment financial and non-financial outturns: Auditors are indeed asked to comment on the performance achieved by each ministry over the year;[12, 13] and
- The Audit report on the State financial statements (*Rapport de certification du compte général de l'État*) and Social security financial statements (*Rapport de certification des comptes du régime général de sécurité sociale*).

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

In recent reports (2011 and 2016), the Court of Accounts commented on outcomes of the new Organic Budget Law adopted in 2011 and, among other topics, assessed the quality and usefulness of government's fiscal reports.

The Court of Accounts noted that, overall, the quantity and quality of information provided to Parliament had noticeably improved over the last years. Performance targets and results are integrated in budget documentation, and their usefulness is well understood by public officials.[14] Accrual-basis financial statements prepared by central government (and social security funds) have improved transparency on public finances.

However, concerns remain. The Court of Accounts underlines in particular the limited interest, in Parliament, for Budget Execution Law's documentation. The wealth of available information, on performance results or the full costs of operations in the accrual basis financial statements, is little analysed for budgetary decision making.

The Court of Accounts notes that this situation could be explained by shortcomings of existing fiscal reports:

- performance targets and indicators are numerous, and do not always focus on the most relevant topics for assessing performance of public policies and public managers; but progress has been made in this area; and
- the financial statements presentation is not consistent with the budget – in other words, accrual financial data is not available at public policies' and programmes' levels and cannot be linked with targets an outcomes.[15]

The limited scope of most fiscal reports (budgetary central government only) is also considered as an issue by the Court of Accounts. The Court of Accounts therefore recommended in 2016 to pursue preparatory works for the combination of the State financial statements with those of other major general government units, as of 2020.

2.3.8.4. High-Council of Public Finances

The High Council of Public Finances (*Haut Conseil des Finances publiqu*es, or HCF) is the French independent fiscal institution created in 2012. It has strong links with the Court of Accounts (including the same Chairman).

The overall mandate of the HCF is to ensure the "consistency of the return trajectory to balanced public finances with France's European commitments". More specifically, the High Council of Public Finances delivers opinions on the following matters: with i) the Government's annual macroeconomic projections, ii) the consistency between annual central government's and social security's annual Budgets Acts and targets set in the Public Finances Framework Law, and iii) *ex-post* on significant deviations between the general government structural balance and objectives set in the Public Finances Framework Law.

To fulfil its mandate, the HCF is provided targeted information by the Ministry for the Budget. In its most recent Activity Report, the HCF notes that "although the quality of the information transmitted to it by the Government has continuously improved since its creation, the time frames in which the High Council has to make decisions are highly constrained."

The HCF however, does not provide advice or comments on the content and presentations of the fiscal reports published by the Government.

2.3.9. Recent and on-going improvements to fiscal reports

The LOLF adoption, in 2001, has led to significant improvements in financial management and external accountability. Following this initial reform though, the Ministry for the Budget and users, in particular the Court of Accounts, have been increasingly aware that the volume and complexity of fiscal reports were limiting their usefulness and clarity for Parliament and general public.

A number of initiatives have already tried addressing these issues. The 2012 Organic Governance Law merged three reports in to one (the *Economic and fiscal report*). The Performance Plans and Performance Reports have been simplified, by reducing by two-third the length of policies' cost analysis and limiting the number of programmes (-10% from 2006 to 2016), performance targets and indicators (-50% from 2006 to 2016). The length of budget documents has decreased of around 20% during the last decade. However, it still amounts to more than 11 000 pages a year.

Improvements are being considered. They include aligning the accrual basis financial data's presentation with the ones the budget, in response to concerns expressed in particular by the Court of Accounts. In addition, communication to the public will be improved by publishing a Citizen's Budget in 2017 and publishing accrual basis accounting data on the government's open database. The Ministry for the Budget envisions also launching a budget-specific open database.

2.3.10. Summary

France's fiscal reporting framework employs many OECD best practices. In particular, fiscal reports provide a short and medium perspective on public finances; performance information is fully integrated in budget documentation; detailed budget outturns are available on a monthly basis; financial reports submitted to Parliament at year-end are prepared on both accrual and cash bases. External oversight is exercised on both forecasts and cash and accrual bases accounts by the Court of Accounts, which has comprehensive access to government financial data.

Against this background, users underline the completeness of fiscal reports prepared by the Ministry of the Budget. They note however that the use of PDF document for most external communication, to Parliament and general public, limits significantly the usefulness of financial data. Government and users both consider that the wealth of available information, on performance results or the full costs of government operations in the accrual basis financial statements is so far too little used for budgetary decision making. The institutional coverage of most budget documents and financial reports is limited compared to the other countries reviewed as part of this study.

Notable features of France's experience in the area of fiscal reporting include the integration of financial and performance information in the main budget documents, and consistency of information presentation within all reports. All budget documents indeed follow a similar format (cash and commitment basis, presented by public policy and programme), with performance targets and indicators assigned to all proposed appropriations both at mission and programme levels. The cash and accrual fiscal reports are systematically and clearly reconciled. Accrual basis financial statements are bridged with cash basis budget outturns at the central government level, and differences generated by different accounting bases are identified and commented in detail.

Notes

1. Case study realised from January to March 2017.
2. This case study does not discuss the fiscal reports prepared by the Ministry for the Budget for the European Commission as part of the European Semester, such as the National Reform Programme, Stability Programme and Draft Budget Plan included in Figure 3.
3. Fiscal year 2016 is one exception to this practice, because of the national elections in May 2017.

4. In most cases, a single ministry is in charge of implementing a public policy.
5. The budget directorate published around 50 such books in 2016 (including 10 dedicated to spending reviews). Spending reviews were experimented in 2005 and rolled over as a comprehensive exercise in 2007 and 2012.
6. To ensure the co-ordination of fiscal policies among Member States sharing the euro as their currency and because economic policy is recognised by the EU Treaty as 'a matter of common concern', governments are required by European economic governance rules to submit their Draft Budget Plans for the following year to the Commission by October 15.
7. The French Parliament comprises two chambers: the National Assembly and the Senate. This section is based on answers by the Public Finance Committee of the Senate. The Public Finance Committee of the National Assembly did not participate in the study.
8. The Committee's role and attributions are defined in the legislation (Budget Organic Law and Senate Legislation) but also evolved over years based on working practice. The Chair of the Committee and her Co-Chair (*Rapporteur général*) oversee all public policies and programmes within the Budget Act. Members of the committee have specific area of competency, meaning that each one of them is tasked with the oversight of a given public policy, or programme. With regards to the Budget Act, the Committee establishes each year a report commenting on the state of public finances and analysing (and proposing amendments, where needed) each legal provision submitted to Parliament's approval based on the work undertaken by each member on his specific area of competency.
9. The Committee establishes a work plan at the beginning of the fiscal year, which defines the topics of the controls that will be undertaken by each of the members of the Committee.
10. Subject to a limited number of exceptions, such as secret-defence information.
11. Prior to 1996, the Court of Accounts was publishing only the Budget execution report. Its mandate and publications have significantly evolved over the last two decades. Key milestones include analysis of the financial situation of public entities outside of central government (social security funds in 1997 and local government in 2013); comments on medium-term targets established by the government (2005); and review of performance results (2015).
12. With regards to non-financial information, the methodology developed by the CC mentions that auditors should assess i) performance indicators' relevance; ii) their consistency over time; and iii) their usefulness (is the performance indicator used for improving the efficiency or effectiveness of a given public policy?).
13. Similar, but separate, Budget execution reports are published later in the year for the Social Security (September) and local government (October).
14. The Court of Accounts commissioned an opinion poll.
15. With regards to the former, the Court of Accounts (2012) noted that "limited time devoted to the analysis of outcomes in parliamentary debate and the little use made of the 894 performance indicators contained in budget documents inevitably mean that some of the most innovative possibilities offered by the LOLF are left unused".

Selected References

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2.4. The United Kingdom[1]

2.4.1. Overview of government fiscal reporting practices

Within the United Kingdom's central government, the lead in fiscal matters rests with the Chancellor of the Exchequer, who leads the department responsible for overall economic and fiscal policies within the UK, Her Majesty's Treasury (the Treasury).

The Treasury defines applicable principles for fiscal reporting in the UK, in accordance with legal requirements set out in the *Government Resources and Accounts Act 2000*.

Fiscal reporting practices in the United Kingdom are structured around four interconnected sets of procedures and reports:

- For medium term expenditure planning, the *Spending Review* and *Single Departmental Plans*;
- For taxation and updates on the government's economic and fiscal position, the *Budget*;
- For obtaining authority to incur expenditure, the *Supply Estimates*; and
- For reporting on expenditure the *Annual Reports and Accounts*.

A number of other fiscal reports (such as fiscal statistics and debt management reports) are also published annually by the Government (see Figure 4 below).

Spending plans and outturn reported in Spending Reviews, Supply Estimates and Annual Reports and Accounts are prepared on an accruals basis i.e. recognising costs and revenues when they are incurred, rather than when cash is paid or received. Cash is also monitored, managed and controlled for borrowing and taxation purposes.

2.4.2. Medium term expenditure planning

From time to time, the Chancellor outlines to Parliament[2] the results of internal government *Spending Reviews,*[3] setting out the government's spending plans for a number of years ahead. Each Spending Review settlement sets out proposed Resource and Capital spending limits (Departmental Expenditure Limits[4]) for each of the major Government Departments. Forecasts of the remaining spending – Annually Managed Expenditure[5] – are also provided for the same numbers of years ahead, alongside expected levels of revenue and borrowing.

Spending Reviews are used by government to set medium term expenditure plans. They have no legal status, but are used by HM Treasury as the basis for future planning and, with any intervening changes, eventually become the expenditure plans put to Parliament annually in Supply Estimates.

The Government also normally sets out its priorities and proposed measures of performance in advance, often in a separate document. Since 2016, this has been achieved through the publication of Single Departmental Plans for each department. Performance against these plans is reported subsequently in Annual Reports and Accounts.

Both documents cover the central government sector only, including transfers (grants) by central government to local government.

2.4.3. Budget procedure and reports

The *Autumn Statement* operates as a mid-year update, but also announces large-scale policies later reflected in the Budget.[6]

The *Budget* is the means by which the Government provides an annual update to Parliament on its fiscal policy decisions, and sets out plans for taxes for the year ahead.

The Budget may also include adjustments to the Spending Review plans previously announced. The Budget is published alongside forecasts for the economy and public finances by the Office for Budget Responsibility.[7]

The taxation measures contained in the Budget are initially approved through Ways and Means resolutions which are then submitted for Parliament's approval in the *Finance Bill*, which is scrutinised, debated and adopted by Parliament, usually in April each year. From winter 2017, Finance Bills will be introduced following the Budget. The aim will be to reach Royal Assent in the spring, before the start of the following tax year. This change in timetable will help Parliament scrutinise tax changes before the tax year where most take effect.

Information on budget execution is provided monthly. The Office for National Statistics and the Treasury publish jointly the statistical bulletin called *Public Sector Finances*. It includes tables of data showing public sector net borrowing and net debt; breakdowns of spending; receipts and debt by sector (central and local government); and reconciliation between the accrued borrowing, cash transaction and debt. Information on spending is not detailed by department. Three months after the end of the fiscal year, *Public Expenditure Statistical Analyses* consistent with audited departmental accounts for most departments are presented to the Parliament and published.

2.4.4. Supply process and Supply estimates

The Supply process is the means by which the government seeks authority from Parliament for Government spending each year. The process is organised around three documents: *Main Estimates, Supplementary Estimates* and *Vote on Account*.

The *Vote on Account* provides the initial funding for each government department to operate between the beginning of the financial year in April and approval of the Main Estimates, usually in July. The Vote on Account is published in February and voted by Parliament in March.

Main Estimates seek approval for the spending totals for each government Department for the new financial year. Up to five different spending totals are set for each department (Resource Departmental Expenditure Limit, Capital Departmental Expenditure Limit, Resource Annually Managed Expenditure, Capital Annually Managed Expenditure, and so-called "Non Budget" Expenditure[8]), alongside an amount of cash required in total to service each of these budgets. A formal description of the services to be financed (called the *ambit*) provides a control on the coverage of spending within each Department's spending limits. Main Estimates are presented to the Parliament in April, at the beginning of the fiscal year. They are voted by the Parliament in July.[9]

The *Main Estimates* document is significantly longer than the Budget. As well as the proposed spending totals, it contains considerable detail of how spending is expected to be allocated within the totals (although Government is free to spend money as it likes) without reference to Parliament, within the restrictions of the overall spending limits, ambits and the law which Parliament approves. Estimates also contain details of income used to support spending, spending by arms-length bodies, details of gifts and a list of associated contingent liabilities.[10]

Supplementary Estimates seek to amend, where necessary, the departments' initial requirements. They are presented to the Parliament in February and voted by mid-March in the year to which they relate.

The formal mechanism whereby spending is authorised by Parliament in each case is initially through Supply Resolutions, which are followed by Supply and Appropriation Bills, which include the spending totals and ambits set out in the relevant Estimates, and must be approved by Parliament before taking effect.

Outturn against the budgets in the Estimates is published soon after the end of the financial year, between July and January, in departments' Annual Report and Accounts (see below). Should spending exceed any of the voted spending limits or fall outside the ambits, the Comptroller and Auditor General will give a qualified opinion on regularity , and report this along with an explanation, in the *Statement of Excesses* presented to Parliament annually in the following February after the year end.

Estimates cover the central government sector only, including transfers (grants) by central government to local government.

2.4.5. Annual Reports and Accounts and Whole of Government Accounts

At year-end, departmental groups, and all public sector entities, prepare an *Annual Report and Accounts*, or ARAs, which are part of the accountability process to Parliament. These reports provide information on a reporting entity's financial performance over a 12 month period; financial position at the end of that period ("balance sheet"); and spending outturn against the totals voted through the Estimates ("Statement of Parliamentary Supply"). In other words, the ARAs show outturn vs. planned expenditure against so-called *control totals* (spending authorisations and budgets)

Annual Reports and Accounts are prepared on an accruals basis, following International Financial Reporting Standards (IFRS). Since 2011, Departmental accounts now consolidate the expenditure, income, assets and liabilities of the core department with their associated arms-length bodies. They are independently audited by the Comptroller and Auditor General.

The statutory deadline for completion of accounts is 31 January, 10 months after the end of the financial year to which they relate. In recent years a drive for "faster closure" within government has led to the majority of Departmental annual reports and accounts being audited and published by late July, before Parliament rises for its summer recess.

Within the Annual Reports and Accounts, Departments also report on performance in a manner that they consider would best contribute to the understanding of performance and value for money in their areas of responsibility. In practice, this currently involves reporting against priorities, and against Key Performance Indicators set out in the previously published Single Departmental Plan.

Departments are also at liberty to produce additional non-financial information separately to ARAs such as a standalone sustainability report.

Departmental Annual Reports and Accounts cover the central government sector only, including transfers (grants) by central government to local government. Local authorities produce their own accounts, also on an accruals basis.

In addition, *Whole of Government Accounts*, or WGA, are published as part of the accountability to Parliament procedure and for transparency purposes.[11] These go a step further than Departmental Annual Reports and Accounts by consolidating not only all of the central government departments and arms-length bodies, but also local authorities – that is over 6 000 entities across the public sector. They provide a comprehensive, accounts-based picture of the financial position of the UK public sector. WGA also include non-financial information, amongst others the Overview, Remuneration Report and Comparison to the National Accounts.[12] The WGA are prepared under the IFRS framework. They therefore include a reconciliation of the major indicators of the WGA and fiscal statistics.

Figure 5. **The United Kingdom: Main Public Annual Fiscal Reports**

		Budget Procedure	Supply Procedure	Other
Forward Looking Reports	Public Sector level	• Spending Review and Autumn Statement • Budget • Finance Bill	• Main Supply Estimates • Supplementary Supply Estimates • Vote on Account	• Economic and fiscal outlook * • Fiscal sustainability report* • Fiscal risks report * • Welfare Trends Report *
	Depart ments			• Single Department Plans
In-Year Reporting	Public Sector level	• Public Sector Finances Statistical Bulletin		• Monthly revenue collection reports • Monthly commentary * • Quarterly statistics • Quarterly debt management report
	Depart ments			
Backward Looking Reports	Public Sector level	• Public Expenditure Statistical Analyses (PESA)	• Statement of Excesses	• Whole of Government Accounts • Annual statistics • Annual debt management report • Annual tax relief reports • Forecast evaluation report*
	Depart ments			• Annual Reports and Accounts

* These reports are published by the OBR. Fiscal Risk Reports will start being published in 2016.

Source: OECD, based on information from the Treasury and Office for Budget Responsibility.

2.4.6. Other fiscal reports

The Treasury produces a number of fiscal and other related reports each year and a full list of the publications may be found on its website.[13] For example, in 2016, the Treasury published more than 400 documents.

A number of other government bodies publish additional fiscal reports: the ONS publishes statistical bulletins on a monthly, quarterly and annual basis; the *UK Debt Management Office* publishes quarterly and annual debt management reports; *Her Majesty's Revenue and Customs* publishes monthly revenue collection reports and annual tax relief reports. These reports provide detailed information and management commentaries on financial transactions also reported in the WGA. Delays in the publication of these reports are however significantly shorter than for the WGA which aims to publish the report within 12 months after the end of the reporting period.

2.4.7. Accessibility of fiscal reports and data

Treasury reports are published on its website as a PDF, and hard copies are laid in Parliament. Its Public Sector Finances Statistical Bulletin is published on line in html and Excel formats, in addition to the PDF document.

Departments are responsible for publishing their own departmental Annual Reports and Accounts online and for laying them before Parliament. For ARAs, Principal Accounting Officers are asked to ensure that systems are in place to ensure that electronic versions are identical to those published in hard copy, and that secure systems are in place for the maintenance of and integrity of their websites.

Departments should also publish a separate, accessible document (e.g. an Excel spreadsheet or csv file) containing Public Spending and Administrations Budgets' data. This is a key feature requested by Parliamentary officials and ensures proper analysis of the information by Parliamentary select committees, the Parliamentary Scrutiny Unit and the media. Failure to present data in the right format results in a lack of transparency and may also attract media criticism.

2.4.8. Users' and auditors' assessment of fiscal reporting practices

2.4.8.1. Government's processes and practices for estimating the usefulness and costs of fiscal reports

Information on the cost of producing fiscal reports has not been provided.[14]

The Comptroller and Auditor General, as head of the NAO, writes to the Treasury each year after the completion of the certification of annual reports and accounts process. The Treasury systematically considers the recommendations to improve the accounts production and quality. In addition, individual departments systematically liaise with their Select Committee in Parliament and may receive comments and suggestions to improve their plans and reports.

Under legislation, the Treasury is required to consult an advisory group on financial reporting principles and standards for resource accounts and Whole of Government Accounts. The advisory group known as the Financial Reporting Advisory Board provides independent advice to the Treasury on the application, and possible adaptation, of financial reporting standards and principles in the public sector. The Financial Reporting Advisory Board also examines guidance for the preparation of ARAs in the public sector with the aim of ensuring they comply with relevant financial reporting standards. The Board prepares an annual report of its activities including its views on the changes made during the period to the accounting guidance and accounts directions and sends a copy of its report directly to the Committee of Public Accounts and the Treasury Select Committee of the United Kingdom Parliament, the Welsh Assembly Government, the Scottish Ministers and the Executive Committee of the Northern Ireland Assembly.

2.4.8.2. Parliament

To carry out its functions with regards to statutory authorisation for the consumption of resources, capital spending, and for cash to be drawn from the Consolidated Fund, the Parliament receives and votes the Finance Bills and Supply and Appropriation Bills each year, which are based upon the Budget and Supply Estimates documents mentioned above. Audited Annual Reports and Accounts and the Whole of Government Accounts are also laid before Parliament each year.

Each major government department is scrutinised by a corresponding Departmental select Committee of the House of Commons. Each of the Departmental Select Committees has a core task[15] to examine the plans, outturn and performance of the relevant department and the relationship between spending and outcomes. Departmental Select committees are supported in that role by the House of Commons Scrutiny Unit.[16]

In addition, The *Public Accounts* Committee (PAC) has a specific and important role in examining the Government's financial affairs and improving value for money.[17]

The working practice of the PAC has evolved into a working relationship with the external auditor, the National Audit Office (NAO), such that a substantial component of the scrutiny work is influencing the programme of the NAO to cover issues of interest to the Parliament and choosing which NAO reports the PAC wishes to cover once the audit work is complete. The PAC's individual members may also receive coaching from the NAO on how to extract useful information from those accounts and assess them for what might be interesting.

The Parliament does not have direct electronic access to government financial databases, but the NAO is provided with access to all relevant accounting records, which directly benefits the information resource of the PAC.

Despite satisfaction with progress made in recent years with fiscal reports, the Parliament expressed concerns in a number of areas recently.

The PAC concluded in October 2016 an inquiry entitled *The Government Balance Sheet*. The PAC welcomed the improvements that the Treasury has made to the quality, coverage and timeliness of the WGA. It noted, however, that there is more to do to make these accounts more useful to the Government, as well as to Parliament and the public. In particular, the PAC recommended that the WGA be published more quickly after the year-end; include more information on the reasons for significant movements on the balance sheet and the associated fiscal risks; explain better where public money is going; and discuss the impact that the Government's decisions have on the short- and long-term public sector financial position.

The *Public Administration and Constitutional Affairs Committee* (PACAC) concluded in 2017 an inquiry into the format and utility of government accounts (monthly management accounts used by Ministers, Permanent Secretaries and Departmental Boards, and ARAs). This report lays out a number of steps for making government financial reports central to accountability in the public sector. They comprise reporting public spending at departments' level by policy or service and 'by cost unit and increasing managerial accountability (through ministerial statement on promises of funding and saving and external audit of performance information).

The *House of Commons Procedure Committee* has also been conducting an inquiry into the procedures for examining, debating and authorising the expenditure in the Estimates. The inquiry also covers the documentation, support and time available for Parliamentary consideration.[18]

Finally, the Chair of the PAC has expressed in April 2016 the Committee's discontent with the process of Excess votes in a submission to the Procedure Committee. To help address this, the PAC called departmental witnesses for a full and frank discussion on the excess votes in 2017.

2.4.8.3. National Audit Office

The NAO led by the Comptroller and Auditor General, scrutinises public spending for Parliament. The NAO's work comprises value for money studies, oversight of local audit, investigations, support to Parliament and international activities. The NAO also audits the WGA, financial statements of all central government departments, agencies and other public bodies, and reports the results to Parliament.

NAO's audit opinion on the WGA is qualified. However, continuous improvements to the quality, accuracy and completeness of information within the WGA resulted in a decrease of the scale of the NAO's audit qualifications over time.

The NAO underlined repeatedly during the last years the key role of WGA for understanding the Government's financial performance and position. According to the NAO, the WGA are indeed the most complete record of what the government spends, receives, owns and owes. The NAO does not identify any difficulty with the volume and level of technicality of WGA and notes on the contrary that enhancing disclosures would increase the WGAs' usefulness as a management tool and provide greater transparency.

The NAO is however aware that WGA and ARAs are likely to be difficult to understand for readers that are not familiar with the accounting and reporting requirements that apply in the public sector. In addition, the data provided in financial statements needs to be analysed and interpreted in order to allow the Parliament and the public to understand the fiscal exposure and risks generated by the government's financial operations reported in the WGA and ARAs.

Against this background, the NAO published over the last year a number of guidance and reports aimed at non-technician users of WGA and ARAs. They include *An introductory guide to understanding central government's accounts* and yearly *Snapshot on UK finances* and *Factsheet on WGA*.

In addition, in 2016, a series of reports started exploring some of the major risks to public finances highlighted in the WGA, examining how these risks to the balance sheet have changed in recent years and considering how the government currently manages them.

The NAO also underlined recently the need to better link financial and performance information, following the recent adoption of SDPs. Progress remains to be made in particular for linking objectives to detailed spending plans and mid-year performance reporting to Parliament (an important commitment of the government as part of its recent reform of the performance framework) is not yet implemented.

2.4.8.4. Office for Budget Responsibility

The Office for Budget Responsibility (OBR) was established in 2010 to provide independent and authoritative analysis of the UK's public finances. Legislation states that the OBR's duty is to "report on the sustainability of the public finances", in practice this requires the OBR to:

- produce the official UK economic and fiscal forecasts (and regularly assess the accuracy of its own past forecasts);
- evaluate and analyse the long-term sustainability of the public finances, trends in welfare spending, and fiscal risks; and
- scrutinise the Government's policy costings and performance against fiscal targets (the former being certified by the OBR).

The OBR is therefore both producer and user of fiscal reports. The OBR also publishes working papers that explore issues relevant to its activities.

In its capacity of fiscal reports' producer, the OBR publishes several reports and papers on its website, including medium-term *Economic and fiscal outlooks*; long-term fiscal projections and balance sheet analysis in *Fiscal sustainability reports*, analysis of social security spending in *Welfare trends reports* and backward-looking analysis of forecast accuracy in *Forecast evaluation reports*. It will start publishing a *Fiscal risks report* from 2017. The OBR also publishes a *Monthly commentary*, which explains how monthly public finances data should be interpreted in light of its most recent forecast.

Transparency is a key objective for the OBR. Initially, the OBR focussed on adding transparency to its medium-term forecasts, publishing elements of them that were not previously published by the Treasury and explaining all the underpinning judgements and assumptions.[19] This initial practice evolved into a policy of releasing further information on the detail of forecasts in response to external requests, and publish these on the OBR's website on an ongoing basis thereafter. More recently, the OBR started using its website more intensively to promulgate material in bite-size and/or more accessible formats. This includes a brief guide to the public finances, aimed at a non-expert audience, and dedicated tax-by-tax, spend-by-spend pages that summarise for a more technical audience all the material that is considered by the OBR in the process of its work.

As a user of fiscal reports, the OBR has access to all public reports mentioned in sections above, as well as unpublished financial data. The latter includes the Treasury's OSCAR system, which provides financial data by government department and categories of spending, as well as aggregated figures, and monthly monitoring data on central government receipts and spending from the Treasury, Her Majesty Revenue and Customs and the Department for Work and Pensions. These include analysis of outturns vs. forecasts.[20] In addition, the OBR has a statutory right to any additional information held by departments relevant to fulfilling its duty of reporting on the sustainability of the public finances and can commission tailor-made inputs required to compile its reports. Relevant information collected this way is made public in the OBR's own publications.

The OBR does not provide official comment or advice on the UK government's fiscal reports presentation or reliability as part of its mandate, but provides general observations on the merits and limits of data published by government for preparing its own reports.

In a recent working paper (2016), the OBR noted that monthly statistical data is comprehensive, consistent over time and particularly useful to technical users, and WGA provide useful additional information about government operations that is not available in the statistical data. In particular, WGA coverage of provisions and contingent liabilities provides the most comprehensive picture of likely and possible future liabilities.[21]

However, the OBR noted that the usefulness balance sheets as an indicator of long-term fiscal sustainability is limited by their backward-looking nature (they include only liabilities and assets linked to past government activity). Within this backward-looking approach, balance sheets' coverage is more complete for liabilities than assets. Based on past government policies, balance sheets measure some future liabilities, such as public sector pensions, but do not do so for future assets (in particular, as noted by the OBR, government's "*greatest financial asset: its ability to levy future taxes*"). Therefore, balance sheets do not provide an easily understandable picture of the public sector financial situation to non-technician readers and balance sheet measures (such as public sector net debt and the broader public sector net worth) do not allow the direct assessment of the sustainability of public finances.

The OBR also notes issues with the comparability of budget and estimates and in-year financial outturns. Monthly statistics are expressed in terms of economic categories whilst public expenditure is presented in budgets and estimates by control totals.[22] As statistical categories and control totals do not align, the OBR publishes its forecasts in terms of both control totals and economic categories, and tries to make the read-across transparent. This is likely to be challenging for non-technical users. Another concern is that, in some cases, monthly statistics necessarily include elements of forecast until these can be replaced with hard data, which is not always understood by users.

2.4.9. Recent and on-going improvements to reports and procedures

The United Kingdom has undertaken a number of significant reforms in the area of fiscal reporting over the last 20 years. These reforms started with the adoption of accruals based budgeting and accounting across the whole public sector, which derived from the motivation across Parliament and government to modernise, enhance accountability and improve decision making. The transition to accruals based budgeting and accounting took place from 2000 to 2002.

Following this initial reform, the 2011 *Clear Line of Sight* (Alignment) reforms simplified government's financial reporting to Parliament by aligning, as far as possible, the recording of government spending in Supply Estimates with the spending limits set by Treasury and the spending reported in Annual reports and Accounts. Consequently, and as mentioned above, fiscal information is now presented much more consistently and differences usually explained and reconciled.

The 2013 *Simplifying and Streamlining Accounts* reforms restructured the presentation of the statutory annual reports and accounts produced by departments so as to better meet the needs of users, structure them more logically and remove unnecessary or irrelevant material. The project has led to a restructuring of the traditional presentation of Annual reports and accounts into three sections combining all reporting requirements: performance i.e. "telling the story"; accountability; and financial statements.

Following the introduction of the new format for ARAs in 2015-16, the Treasury has undertaken a post implementation review and sought feedback from preparers and stakeholders on its relative merits and success. Those canvassed for feedback include representatives from departments and arms' length bodies and from external stakeholders (House of Commons Scrutiny Unit, the Financial Reporting Advisory Board and the National Audit Office). Further feedback and recommendations for improvement will be provided through a report of the inquiry by the House of Commons Public Administration and Constitutional Affairs Committee which has been looking into the format and utility of monthly management accounts and departmental ARAs (see above).

The Treasury is also looking at possible reforms to the presentation of the WGA, including reviewing the content of the accounts to determine whether the disclosures are proportionate and focussed on the material items in the accounts.

2.4.10. Summary

In the UK, government has regularly put forward ideas for government reporting to evolve in a way to keep pace with private sector good practices and address needs for fiscal decision making. Government's fiscal reporting practices have therefore undergone profound reforms during the past quarter of a century and UK's fiscal reporting framework employs many OECD best practices. In particular, there is considerable alignment between budgets, estimates and accounts (all prepared on an accrual basis); fiscal reports cover the whole of the public sector, which is an almost unique feature of the UK within OECD countries; forecasts provide a short, medium and long term perspective on public finances; and high-quality assurance on fiscal reports is provided through independent audit (NAO) and analysis of public finances (OBR). Fiscal reports are published on a variety of websites and selected fiscal data is available to the public (Treasury and OBR). Information on the cost of producing fiscal reports has not been provided for this study.

The Treasury consults an advisory board with regards to financial reporting standards, but does not collect feedback of users on a systematic basis. Users of UK fiscal reports however actively provide feedback, through various means. In particular, Parliamentary Committees have been conducting inquiries into the accounts and the estimates process. These reflect concerns that the information provided to Parliament still does not fully meet its requirements, and that current processes allow only for limited consideration of spending plans. These inquiries are expected to make a number of further recommendations for improvement designed to increase the usefulness of documents (in particular Estimates documents, Single Departmental Plans and the WGA) to users and the ability of Parliament to conduct meaningful scrutiny.

Against this background, notable features of the UK's recent experience in the area of fiscal reporting include the completeness of public finances account and analysis and integrated reporting at department level. Early fiscal reporting reforms in the UK focussed on adopting accrual accounting and public sector perspective – that is a complete account of public finances. These initial reforms undertaken by the Treasury have however not been considered as an end point. There has been considerable involvement in analysing the balance sheet in the UK, showing in particular how this data could be used for informing fiscal forecasts and risks analysis (OBR). Recent reports of PAC and NAO, calling for better information on management methods of some balance sheet items such as pensions or financial investments, may trigger further steps in this area. In addition, the Treasury's introduction of simplification of departmental Annual Reports and Accounts, which integrate performance, accountability and financial information and emphasise the importance that government's reports tell "a story", is a step towards improving the understanding and usability of fiscal reports, placing the Treasury at the forefront of global thinking on integrated reporting in public sector.[23]

Notes

1. Case study realised from January to March 2017.
2. References to Parliament relate to the House of Commons. As a rule, the second chamber, the House of Lords plays no role in consideration or approval of financial matters.
3. The most recent Spending Reviews have taken place in October 2007 (covering 3 years), October 2010 (4 years), June 2013 (1 year) and Nov 2015 (4 years)
4. Generally, expenditure which is controllable.
5. Generally, expenditure which is demand led or more difficult to forecast or control.
6. In the 2016 Autumn Statement it was announced that, following the 2017 Spring Budget, Budgets will be delivered in the Autumn rather than in March or April of each year.

7. The Office for Budget Responsibility (OBR) is required by law to produce two forecasts a year. One of these will remain at Budget. The other will fall in the spring and the government will respond to it with a Spring Statement.

8. Block grant funding provided for the devolved administrations of Scotland, Wales and Northern Ireland.

9. Under Standing Orders, by 5 August.

10. Fifty-one (51) central departments' single estimates were presented in the 2016-17. These estimates include not only the spending plans of the relevant government department but also those of the bodies for which the department has responsibility.

11. WGA's current aim is to publish the account within 12 months after the year end as was done in 2013-14.

12. An alternative, economic measure of overall spending, which follows the ESA 10 standards.

13. Documents are classified on its website in to collections (for example, Correspondence, Guidance, Consultation Outcome or Policy Paper), *www.gov.uk/government/publications?departments%5B%5D=hm-treasury*.

14. With regards to year-end reporting, a team of 8 to 14 staff (depending on the time of the year) is dedicated all year round to producing the WGA.

15. Core tasks are suggested tasks for all Departmental Select committees which have been agreed by the Chairs of the committees collectively (the "Liaison Committee").

16. The Scrutiny Unit finance function is staffed by accountants, economists and those with a financial background, qualifications and experience.

17. The Standing Orders of the House of Commons indicate that it should examine "the accounts showing the appropriation of the sums granted by Parliament to meet the public expenditure, and of such other accounts laid before Parliament as the committee may think fit". However, select committees may also examine particular departments' plans and annual accounts and reports. The Committee is also the primary contact point for departments highlighting their expenditure in the way of gifts and contingent liabilities taken on by the Government. The Chair of the Committee receives a letter when this information is laid before Parliament.

18. The inquiry covers the following topics: The opportunities for Members to examine and debate Estimates, and the use made of these opportunities; the documentation available to Members to inform their consideration of Estimates; the support provided by House departments for Members who wish to scrutinise Estimates and associated documents; the work of departmental select committees in examining departmental Estimates on behalf of the House; rules and conventions governing the formal consideration of Estimates; the House's formal procedures for approving Estimates and passing Supply and Appropriation Bills, and possible changes to those procedures; the timing of the House's consideration of Estimates; the adequacy of present allocations of time for consideration of Estimate.

19. One element of that was to explain in detail how forecasts had changed since the previous publication, using quantitative "diagnostic" information that had previously been available internally but had not been made available to users of forecasts. In order to illustrate the uncertainties around economic and fiscal forecasts, the OBR presents fan charts, scenarios and sensitivities around the central projections.

20. The Treasury uses an Online System for Central Accounting and Reporting (OSCAR) which refers to a suite of tools, databases and reports to collect, store and analyse financial and associated data sets, provided by other government departments. Information input by departments into OSCAR is used to monitor and control public spending, prepare robust analysis to inform ministerial decisions and help produce Parliamentary Estimates.

21. OBR's working papers and reports also mention issues with the usefulness of National accounts and WGA in the context of its forecasting activities. They include, for example, that WGA preparation basis is not constant over time, and do not present diagnostics for year-on-year changes in a sufficiently detailed manner to allow users to analyse the sources of change. This has been a particular issue with various actual and contingent liabilities that are subject to change due to changes in the underlying estimates of future costs and changes in the discount rate used to convert future flows into balance sheet liability measures.

22. The OBR also face temporary challenges when the National Accounts and the public sector finances data are not consistent. That typically happens when a classification change has been

implemented in the public finances data, but not yet in the National Accounts. For example, housing associations are currently "public sector" for the public finances data, but remain "private sector" in the National Accounts.

23. Other public sector entities that have engaged in such reforms are mentioned in "Integrated thinking and reporting: Focusing on value creation in the public sector, An introduction for leaders", CIPFA and Word Bank Group (2016).

Selected References

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National Audit Office (2014), *An introductory guide to understanding central government's accounts*, United Kingdom.

Office for Budget Responsibility (2016), *Fiscal Sustainability Analytical Paper: public sector balance sheet*, United Kingdom.

Olden, B. et al. (2016), *United Kingdom Fiscal Transparency Evaluation*, Fiscal affairs department, International Monetary Fund, Washington.

APPENDIX 1

Institutions surveyed

Australia	
Australian National Audit Office	*www.anao.gov.au/*
Australian Parliament Joint Committee of Public Accounts and Audit	*www.aph.gov.au/Parliamentary_Business/Committees/Joint/Public_Accounts_and_Audit*
Department of Finance	*www.finance.gov.au/*
Parliamentary Budget Office	*www.aph.gov.au/About_Parliament/Parliamentary_Departments/Parliamentary_Budget_Office*
Canada	
Canada's House of Commons: Standing Committee on Public Accounts, Standing Committee on Government Operations and Estimates, Standing Committee on Finance.	*www.parl.gc.ca/default.aspx?Language=E*
Office of the Auditor General	*www.oag-bvg.gc.ca/internet/English/admin_e_41.html*
Parliamentary Budget Office	*www.pbo-dpb.gc.ca/en/*
Treasury Board Secretariat of Canada	*www.canada.ca/en/treasury-board-secretariat.html*
France	
Court of Accounts (*Cour des comptes*)	*www.ccomptes.fr/en*
High Council of Public Finances (*Haut Conseil des Finances Publiques*)	*www.hcfp.fr/Avis-et-publication/Actualites/English-contents*
Ministry for the Budget (*Ministère du Budget*)	*www.performance-publique.budget.gouv.fr/*
French Senate's Public Accounts Committee (*Commission des finances, Sénat*)	*www.senat.fr/commission/fin/*
United Kingdom	
Her Majesty's Treasury	*www.gov.uk/government/organisations/hm-treasury*
National Audit Office	*www.nao.org.uk/*
Office for Budget Responsibility	*http://budgetresponsibility.org.uk/*
United Kingdom Parliament's Scrutiny Unit	*www.parliament.uk/mps-lords-and-offices/offices/commons/scrutinyunit/*

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The European Union budget and the European refugee and migration crises

by
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This article examines how the European Union has addressed the dramatic influx of refugees through programmes funded by the EU budget. This migratory surge has placed significant and unexpected fiscal demands on the EU's current multi-year budgetary framework. As a result, the EU has been forced to employ a variety of budgetary procedures and new fiscal instruments to give it the fiscal flexibility it needs to fund programmes administered inside and outside the EU. Some of these very new fiscal instruments add an additional layer of complexity to the current funding architecture, and it is too early to determine how well these spending practices stand up to Parliamentarian oversight, monitoring, auditing, and regular reporting.

JEL codes: H11, H53, H83

Keywords: European Union, European Union budget, refugee and migration crisis, budgetary flexibility, Multiannual Financial Framework (MFF) 2014-2020

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1. Introduction

Encouraged by German Chancellor Angela Merkel's welcoming declaration, "We can do it," between 2015 and 2017 more than 2.6 million refugees have crossed into and applied for asylum in Europe (Eurostat, 2017a, 2017b). This dramatic and unpredicted surge in migration, principally emanating from Syria, Afghanistan, Iraq, Pakistan, and Nigeria, has imposed a variety of political and economic costs on Europe. In 2015, European Union (EU) President Donald Tusk warned of the "huge and increasing number of refugees." This "unprecedented migratory wave," he said, "means a major increase in spending. When we talk about new reception centres, better protection of the borders or development aid for the countries outside the EU, much more money will be needed" (Council, 2015). The EU has indeed faced an influx of refugees and asylum seekers during the first years of its Multiannual Financial Framework (MFF) 2014-2020 that governs EU fiscal policy. Through the multiyear framework, its annual budgets, and its allied financial instruments, the EU funds programmatic expenditures occurring within the EU, as well as those programmes that support the external dimension of the Union's asylum and migration policies.

This article examines the EU's budgetary responses to the refugee and migration crises, as well as the current architecture of EU financing for migration and asylum policies. Even before the surge in Middle Eastern refugees occurred in the summer of 2015, the EU enacted security, refugee asylum, and migrant management programmes. These programmes are funded within the context of the MFF 2014-2020, which was approved in 2013. Consequently, in light of the refugee surge, many of these programmes that are principally financed through two budget headings were underfunded (Kamaras, 2016). This has resulted in the EU making use of the various flexibility instruments available under the MFF and establishing new funding tools managed outside the EU budget, though partially funded with contributions from the Union budget (D'Alfonso, 2017).

The first section of this article outlines the basic principles of the EU's public finance framework, focusing on the flexibility instruments permitted under the current MFF. The following sections examine the EU's budgetary responses in detail, focusing on supplementary funds added to the EU's annual budgets through budgetary amendment process, the mid-term review of MFF 2014-2020, and the use of new funding options made available through the creation of EU Trust Funds and the Facility for Refugees in Turkey. The final section offers some observations about the implications of using these flexibility tools, and about the politics of employing the EU budget to sanction Member States over the redistribution of refugees in Europe.

2. EU budgetary rules and budget flexibility

The authorisation for the EU's present public financial system rests with the financial provisions stated in the Treaty on the European Union (TEU), the Treaty on the Functioning of the European Union (TFEU), and in secondary legislation, especially the Financial Regulation, Council Regulation No 966/2012 (Council, 2012). The TFEU's Article 310, for example, introduces the key principles of the EU's financial system that are further described in the Financial Regulation. The Financial Regulation outlines the principles of the EU budget, codifies the rules for the procedures governing the establishment and implementation of the EU budget, and describes the budget's control mechanisms. This collective legislation identifies eight budgetary principles that govern the administration of the EU budget: the rule of unity; the rule of annularity; the rule of equilibrium; the rule of specification; the rule of unit of account; the rule of transparency; and the rule of sound financial management. Many of these rules are familiar to students of the EU budgetary formulation and policy (Laffan, 1997). The rule of equilibrium, for instance, states that EU expenditures must not exceed EU revenues; budget deficits are not permitted, the budget must not be financed by borrowing. Altogether, these institutional rules and principles set the perimeters for the formulation, adoption, and execution of the EU's multiyear and annual budgets.

The EU's annual budgets are embedded within the Multiannual Financial Framework (Commission, 2014a). The MFF provides a seven-year funding allocation for the annual ceilings on commitment and payment appropriations by category of expenditure. These ceilings as a general rule may not be exceeded, but a "margin available" is allowed between the annual MFF ceiling on appropriation for payments and the ceiling on revenues that are directly under EU control. This gap between payment expenditures and revenues furnishes the budget with some margin for error and unpredictability in spending requirements. The rules for application of the current MFF for 2014-2020 are stipulated in Council Regulation No 1311/2013 (Council, 2013). The regulation provides special instruments that can be mobilised "over and above the ceilings" previously established in the MFF. This permits the Council of the European Union (Council), which consists of the ministers representing each Member State, and the European Parliament (EP) to adopt a budget proposal offered by the European Commission (EC) by joint decision, and thus circumvent the normally required unanimous Council vote.

2.1. Budget Flexibility

In this way, the EU's budgetary rules allow for budgetary flexibility. Budgetary flexibility refers to the ability of the EU to respond or adapt to changing conditions that require alternations in the MFF. The current MFF provides seven instruments and procedures that enable the EU to engage in budgetary flexibility:

1. **Global Margin for Payments** (Article 5 MFF): The EC is allowed to "adjust the payment ceiling for the years 2014-2020 upwards by an amount equivalent to the difference between the executed payments and the MFF payment ceiling of the year n-1."
2. **Emergency Aid Reserve** (Article 9 MFF): The EUR 280 million reserve is "intended to allow for a rapid response to specific aid requirements of third countries following events which could not be foreseen when the budget was established." The reserve's usage is in particular designated to fund humanitarian operations and also those "situations of particular pressure resulting from migratory flows at the Union's external borders."
3. **European Union Solidarity Fund** (Article 10 MFF): This EUR 500 million fund provides for "financial assistance in the event of major disasters occurring on the territory of a Member State or of a candidate country."
4. **Flexibility Instrument** (Article 11 MFF): This EUR 471 million instrument allows for "the financing, for a given financial year, of clearly identified expenditure which could not be financed within the limits of the ceilings available for one or more other headings."

5. **European Globalisation Adjustment Fund** (Article 12 MFF): This EUR 150 million fund is intended to foster the reintegration of workers into the work force who are affected by structural changes in the labour market and in world trade patterns.
6. **Contingency Margin** (Article 13 MFF): The MFF provides for a contingency margin of "up to 0,03 % of the Gross National Income of the Union"…"outside the ceilings of the MFF, as a last resort instrument to react to unforeseen circumstances." For 2017 the margin amounts to almost EUR 4.5 billion.
7. **Global Margin for commitments** (Article 14 MFF): This margin is constituted by "margins left available below the MFF ceilings for commitment appropriations for the years 2014-2017"…"for policy objectives related to growth and employment, in particular youth employment." For 2017 the global margin is slightly more than EUR 1.4 billion.

Another critical source of budgetary flexibility comes in form of budget amendments. Amendments are proposed by the European Commission and are adopted by the Council and the EP. Amendments reflect adjustments that need to be made in response to changing events for both expenditures and revenues. As will be examined below, numerous budgetary amendments have been required in response to the refugee and migration crises.

3. The initial MFF 2014-2020

In order to implement the common immigration and asylum policies goals outlined in Articles 78 and 79 of the TFEU, the EU and some non-EU states administer a number of programmes in the areas of regular and legal migration, refugee/migrant return, asylum, visa policy, border management, and integration promotion. These programmes are funded by the current MFF, which was formally adopted on 2 December 2013, and is divided into six main headings, as shown in Table 1. Heading 3 "Security and Citizenship" and also partly Heading 4 "Global Europe" are particular important for administering the EU's asylum and migration policies. The MFF provides Heading 3 with EUR 15 686 billion in commitment appropriations, which are pledges or obligations to fund programmes, and Heading 4 with EUR 58 704 billion in commitments. In total, the MFF 2014-2020 provides EUR 959 billion for commitments and EUR 908.4 billion for payments, which are the actual cash transfers made to fund commitments. These figures respectively represent 3.4% and

Table 1. **Multiannual Financial Framework 2014-2020, EUR Millions, 2011 Prices**

Commitment appropriations	2014	2015	2016	2017	2018	2019	2020	Total 2014-20
1. Smart and inclusive growth	60.283	61.725	62.771	64.238	65.528	67.214	69.004	450.763
2. Sustainable growth: natural resources	55.883	50.060	54.261	53.448	52.466	51.503	50.558	373.179
of which: market-related expenditure and direct payments	41.585	40.989	40.421	39.837	39.079	38.335	37.605	277.851
3. Security and citizenship	2.053	2.075	2.154	2.232	2.312	2.391	2.469	15.686
4. Global Europe	7.854	8.083	8.281	8.375	8.553	8.764	8.794	58.704
5. Administration	8.218	8.385	8.589	8.807	9.007	9.206	9.417	61.629
of which administrative expenditure of the institutions	6.649	6.791	6.955	7.110	7.278	7.425	7.590	49.798
6. Compensations	27	0	0	0	0	0	0	27
Total commitments appropriations as a percentage of GNI	134.318 1.03%	135.328 1.02%	136.056 1.00%	137.100 1.00%	137.866 0.99%	139.078 0.98%	140.242 0.98%	908.400 1.00%
Total payment appropriations as a percentage of GNI	135.762 1.01%	140.719 1.02%	144.685 0.98%	142.906 0.95%	149.713 0.97%	154.286 0.97%	157.358 0.96%	1,025.429 0.98%
Margin available	0.25%	0.25%	0.26%	0.31%	0.30%	0.30%	0.32%	0.28%
Own resources ceiling as a percentage of GNI	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%	1.23%

Source: Council of the EU (2013) OJ L 347/981.

3.7% less funding than in the prior MFF 2007-2013, as the Council sought to impose fiscal discipline at a time when many Member States were subjected to severe fiscal austerity in the wake of the Euro debt economic crisis.

3.1. Budgeting for Heading 3 "Security and Citizenship" and Heading 4 "Global Europe"

The analysis provided here examines the relevant budgetary programmes and accounts funded under Heading 3 "Security and Citizenship" and Heading 4 "Global Europe."

3.1.1. Heading 3: "Security and Citizenship"

In general, less than 1% of the current MFF was appropriated to Heading 3 before the refugee crisis. The two most relevant programmes are the Asylum, Migration and Integration Fund (AMIF) and the Internal Security Fund (ISF). These two financial instruments have replaced the General Programme for Solidarity and Management of Migration Flows (SOLID funds) and follow the principle of "shared management" between the Commission and the Member States. The AMIF aims to strengthen and develop all aspects of the Common European Asylum System, to support legal migration to the Member States, to enhance fair and effective return strategies in the Member States that contribute to combating irregular immigration, and to enhance solidarity and responsibility-sharing between the Member States. Approximately 12% of the funds available are managed directly by the Commission or EU agencies. The ISF is divided into two instruments, the ISF Borders and Visa Instrument and the ISF Police Instrument. The purpose of the ISF Borders and Visa Instrument is twofold: first, to support a common visa policy to facilitate legitimate travel, and, second, to support integrated border management, including promoting further harmonisation of border management-related measures. In total, as shown in Table 2, the 2014-2020 MFF allocated EUR 3.764 billion for the ISF Borders and Visa Instrument and EUR 3.137 billion for the AMIF.

Table 2. **Commitments for AMIF and ISF, 2014-2020, EUR Millions, 2011 Prices**

	2014	2015	2016	2017	2018	2019	2020	Total
AMIF	403.26	416.74	430.59	444.83	459.47	486.24	496.29	**3 137.42**
ISF	403.26	414.76	468.02	523.67	587.16	643.63	732.72	**3 764.23**
Heading 3	2 179	2 246	2 378	2 514	2 656	2 801	2 951	**17 725**

Source: European Commission – *http://ec.europa.eu/budget/mff/index_en.cfm*.

3.1.2. Heading 4: "Global Europe"

This heading primarily addresses the external dimensions of the EU's migration and asylum policies, as well as the EU's funding for overseas development programmes. The MFF 2014-2020 provides EUR 58.704 billion for this heading. The overall framework for this policy area is the Global Approach to Migration and Mobility (GAMM) introduced in 2005, under which several financial instruments were developed. This funding is channelled through the Development Cooperation Instrument (DCI) under the Global Public Goods and Challenges (GPGC) thematic programme for the 2014-2020 period, in particular under the Programme for Migration and Asylum (TPMA). This programme is intended to strengthen migration and asylum governance in order to better manage migratory flows. Overall, as shown in Table 3, funds in the amount of EUR 4.915 billion have been allocated for the 2014-2020 period, including EUR 344 million for migration and asylum (Commission, 2014b).

Table 3. **Commitments for Migration and Asylum and GPGC, 2014-2020, EUR Millions, 2011 Prices**

	2014	2015	2016	2017	2018-20	Total
Migration and Asylum	46 319	41 605	45 257	48 274	162 606	**344 062**
Total GPGC	652 376	603 682	646 535	689 627	2 322.944	**4 915.166**

Source: European Commission – *http://ec.europa.eu/budget/mff/index_en.cfm*.

The MFF also includes flexibility instruments such as the Instrument for Pre-accession Assistance (IPA II), the Stability and Peace (IcSP) Instrument, and the European Neighbourhood Instrument (ENI). In addition, the European Development Fund (EDF) and the Humanitarian Aid Instrument offer development co-operation funds for developing countries. The MFF 2014-2020 provides EUR 11.698 billion for the IPA II, EUR 2.338 billion for IcSP, EUR 15.432 billion for the ENI, and EUR 7.1 billion for the Humanitarian Aid Instrument. In total, Heading 4 amounts to 6.1% of all MFF commitment appropriations (Blomeyer, 2017).

4. EU budget amendments in responses to the refugee and migration crises

The MFF 2014-2020 was approved in 2013 at a time when the Member States were still recovering from the 2008 Euro debt crisis and two years before the dramatic influx of refugees in September 2015. Nevertheless, the matter of how to address the surge in migrants coming to Europe was very much an issue before the Syrian refugee crisis occurred. When he became president of the European Commission in November 2014, Jean-Claude Juncker identified migration as one of his ten political priorities. Under Junker's direction, the Commission presented its "European Agenda for Migration," in May 2015 (Commission, 2015a). The agenda called for a new system of migration management based on mutual trust and solidarity to foster the implementation of the Common European Asylum System. Then, building on this document, in September 2015, the Commission issued its Communication, "Managing the Refugee Crisis: Immediate Operational, Budgetary and Legal Measures under the European Agenda on Migration." This communication proposed new budgetary measures that would increase financial support for programmes administered within and outside the EU to address the refugee crisis. In particular, it called for additional emergency funding for Member States, the strengthening of the EU border and security agencies (FRONTEX, EASO, Europol), as well as an increase in humanitarian aid (Commission, 2015b). These proposals were adopted by amending the Flexibility Instrument, and in November 2015, the Council and the EP agreed to mobilise the unused amounts of the instruments for 2014 and 2015 to increase the commitment ceilings for Heading 3 and Heading 4 in the 2016 general budget (Council, 2015a).

4.1. Amended funding for the 2015 and 2016 Annual Budgets

Many of the EU's immediate responses to the refugee/migration crises were reflected in numerous amendments made to the 2015 and 2016 annual budgets in the MFF 2014-2020.

The 2015 budget was amended eight times; three of these amendments accommodated significant and necessary increases in EU spending due to the crisis (Council, 2015b). Amending Budgets 5 (AB 5/2015) and 7 (AB 7/2015), as outlined below, increased spending for measures addressing the refugee crisis, while Amending Budget 1 (AB 1/2015) permitted a transfer of unused AMIF and ISF 2014 funds to the 2015-2017 budgets. This adjustment increased available funds by EUR 1.36 billion in commitments and by EUR 10 million in payments.

4.1.1. Amendments to the 2015 Budget

AB 5/2015 was adopted in July 2015 and presented with the European Agenda on Migration. It contained the following key measures:

- Increased FRONTEX funding in the Mediterranean (Triton and Poseidon, EUR 26 million);
- Increased the emergency assistance provided to the most affected Member States under the AMIF (EUR 25 million) and the ISF (EUR 5 million);
- Funded an EU-wide resettlement scheme (EUR 25 million);
- Increased funding for the Regional Development and Protection Programmes for North Africa and the Horn of Africa (EUR 7 million);
- Increased of the number of posts and related staff expenditure of the EU Agencies FRONTEX, EASO, Europol (16 posts for FRONTEX, 4 for EASO, and 3 for EUROPOL).

AB 7/2015 was adopted in October 2015, and it contained the following key measures:

- Increased emergency assistance funds provided under the AMIF and the ISF by EUR 100 million;
- Increased the number of establishment plan posts for FRONTEX (+ 60 posts), EASO (+ 30), and EUROPOL (+ 30) to strengthen their capacity on the ground, as well as increased their respective salary expenditures amounting to EUR 1.3 million in commitment and payment appropriations for the three agencies combined;
- Provided additional funding for the European Neighbourhood Instrument (EUR 300 million) to ensure that the EU Trust Fund in Response to the Syrian Crisis, also known as the Madad Fund ("Madad" is Arabic for "helping together"), is funded at EUR 100 million.
- Increased the payment appropriations for Humanitarian Aid by EUR 55.7 million.

4.1.2. Amendments to the 2016 Budget

AB 1/2016 was adopted in April 2016, and it contained the following key measures:

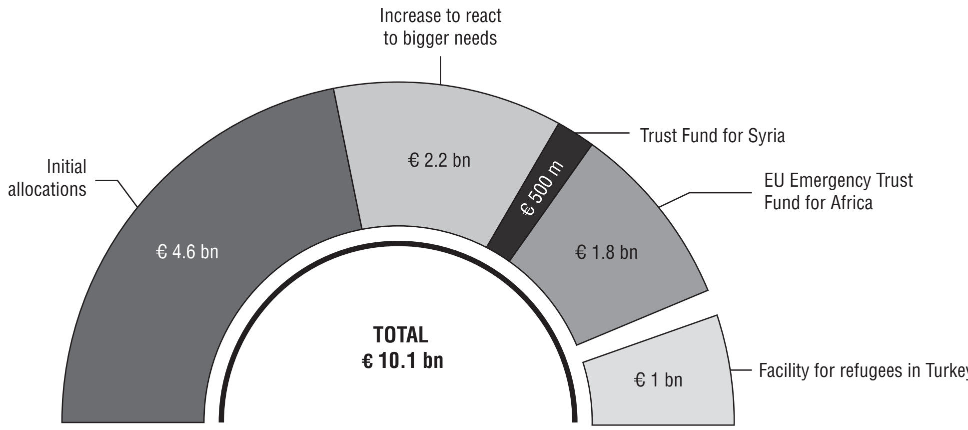
- Transferred EUR 100 million in commitments and EUR 80.2 million in payments within Heading 3 to assist Greece "to cover immediate and urgent needs resulting from the massive inflow of refugees." The amendment noted that Commission estimated that EUR 300 million will be needed to provide emergency refugee support in 2016, and an additional EUR 200 million in the 2017 and 2018 budgets.

AB 4/2016 was adopted in December 2016, and it contained the following key measures:

- Increased Heading 3 for the Emergency Support Instrument within the Union, the Asylum, Migration and Integration Fund (AMIF), and the Internal Security Fund (ISF) by EUR 250 million in commitments and EUR 10 million in payments.

Additional allocations were also provided for various instruments under Heading 4, which contribute to the EU's responses to the refugee crisis. In particular, the budget provided for an increase of EUR 150 million for humanitarian aid, EUR 37 million for IPA II, EUR 16 million for DCI, and EUR 16 million for ENI. Furthermore, at the end of 2015 the EU budget contributed EUR 1 billion to the newly established Facility for Refugees in Turkey. As shown in Figure 1, for the years 2015 and 2016, the EU budget and its allied trust funds provided EUR 10.1 billion to address the refugee and migration crises, including budget amendments. Altogether, these funds may further be divided between EUR 3.9 billion for programmes managed internally inside the EU, and EUR 6.2 billion for programmes administered externally to the EU.

Figure 1. **EU Budget Response to the Refugee Crisis, 2015-16**



Source: EU Budget for the Refugee Crisis, *https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/background-information/docs/eu_budget_for_the_refugee_crisis_20160210_en.pdf*.

5. The mid-term review/revision of MFF 2014-2020

Another flexibility mechanism available to the EU is the Mid-Term review of the MFF, which gives the EU the opportunity to evaluate and adjust the MFF to meet changing priorities and fiscal conditions. In September 2016, the Commission presented its mid-term revision of the MFF 2014-2020, accompanied by various legislative proposals (Commission, 2016a). These proposals were directed at strengthening the EU's ability to react rapidly in case of an unexpected crisis, as well as provide more funds for migration and security policies (Commission, 2016b).

In general, the proposal put forward four main measures that were enacted in July 2017:

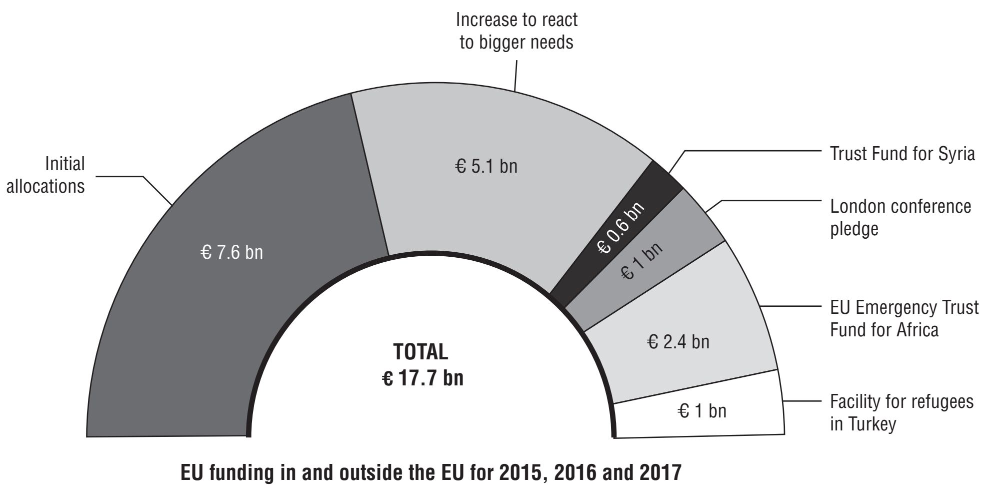
- Removed the cap on the global margin for payments for the years 2018-20 to avoid a repeat of abnormal year-end payment backlogs;
- Increased the amounts available for the Flexibility Instrument (EUR 1 billion) and the Emergency Aid Reserve (EUR 500 million);
- Created the European Union Crisis Reserve Instrument to enhance the EU reaction time to potential crisis;
- Removed the limitations of the global margin for commitments so that these funds could be used for alternate purposes.

These revisions resulted in the resource generation and reallocation of EUR 6.3 billion within the MFF. Of this total, EUR 3.93 billion were allocated for Headings 3 and 4. Within these headings, EUR 2.55 billion would be used to fund migration and security programmes inside the EU and EUR 1.38 billion for such programmes administered outside the EU.

6. The general budget of 2017

The EP adopted the general budget after a compromise agreement was reached with the Council in November 2017. The budget reflects a compromise between the Council's efforts to reduce the Commission's overall budget proposal by 7 per cent, and those Parliamentarians, especially those from Eastern Europe, who sought to protect funding for programmes to stimulate economic growth, employment, and competitiveness. The Commission's own proposal reduced funding for these programmes to increase financial support for resettling asylum seekers, integrating migrants, and increase funds for development programmes directed at addressing the causes of migration. The final compromise budget provided almost EUR 6 billion, an increase of 11.3 per cent over 2016, to reinforce external border protection and to strengthen these development programmes. The budget provides, as shown in Figure 2 below, Heading 3 with commitment appropriations of EUR 4.284 billion, and Heading 4 with commitment appropriations of EUR 10.162 billion (Commission, 2016c, 2016d).

Figure 2. **EU Budget Response to the Refugee Crisis, 2015-17**



Source: EU Budget for the Refugee Crisis and Improving Migration Management, *http://ec.europa.eu/budget/library/biblio/documents/2017/budget-refugee-crisis-improving-migration-management_en.pdf*.

In more detail, the general budget for 2017 funds initiatives such as:

- Reinforcing the European Border and Coast Guard;
- Proposal for a new Entry-Exit System to strengthen border management;
- Review of the Common European Asylum System;
- Establishing an EU Agency for Asylum;
- EUR 750 million under the Facility for Refugees in Turkey;
- EUR 525 million from the EU budget, EUR 160 million from the Syria Trust Fund and EUR 200 million of macro-financial assistance to Jordan and Lebanon as pledged at the UN London Conference;
- Increased resources for security (e.g. EUR 111.7 million will go to support Europol);
- EUR 520 million for humanitarian aid;
- EUR 273 million for the DCI;
- EUR 112 million for the ENI.

7. EU trust funds (EUTF)

EU Trust Funds (EUTF) represent another form of budgetary and financial flexibility available to the EU to address the refugee and migration crisis. Established in 2013 by Article 187 of the Financial Regulation and Article 259 of the Rules of Application for the EU Budget, these trust funds enable the Commission to pool together substantial amounts of development and aid funds (Commission, 2012; Blomeyer, 2017). These funds are financed through the EU budget, as well as from other donors and Member States. The EUTFs are managed outside the EU budget and are directed by their separate Trust Fund Boards. Their legal basis is constituted by their respective Constitutive Agreements and they must fulfil various conditions, such as increasing the visibility of EU global presence and adding value to existing EU programmes. The EUTFs furthermore seek to avoid the fragmentation of responses by the international community, in addition to fostering co-ordination and co-operation among donors. Thus, EUTFs can be seen as pivotal operational instruments contributing to the EU's initiatives addressing the refugee and migration crises.

In this context, the EU created two relevant trust funds, the EU Regional Trust Fund in Response to the Syrian Crisis ("Madad Fund"), established in December 2014, and the Emergency Trust Fund for Africa, established in November 2015. By May 2017, the Madad Fund amounted to EUR 1.303 billion, financed by contributions from the EU budget, twenty-two Member States, EUR 24 million donated from Turkey, and additional funding of EUR 1.186 billion derived from existing EU financing tools, namely the DCI, IPA and ENI. By comparison, contributions to the Africa EUTF reached a total of more than EUR 2.8 billion by end of May 2017, primarily financed by the EDF and by more than EUR 2.6 billion funded from the EU budget (Commission, 2017a).

8. The EU facility for refugees in Turkey

The EU Facility for Refugees in Turkey (Facility) is a co-ordination mechanism for mobilising funds to provide another source of financial resources for Turkey and for streamlining the EU's response to the refugee crisis in Turkey. Founded in November 2015, the Facility became operational in February 2016, and is intended to advance the EU's Turkey Action Plan (Commission, 2016e). The Facility is governed by a Steering Committee that is chaired by a representative from the Commission, and that includes one representative of the Member States and an advisory member representing Turkey. The Facility operates within the EU budget, although it is governed by a more flexible decision making process (Blomeyer, 2017). As indicated in Table 4, the Facility has been allocated EUR 3 billion for the years 2016-2017. The EU budget contributes EUR 1 billion to the Facility with the remaining EUR 2 billion provided by the Member States. Funding for the Facility is primarily allocated through existing EU instruments (ENI, DCI, IPA, IcSP and the Commission's Directorate General for European Civil Protection and Humanitarian Aid Operations ECHO) and the Madad Fund, which contributes 10% of the Facility's budget (Commission, 2017b). Of the EUR 3 billion, EUR 1.4 billion is committed for humanitarian support and EUR 1.6 billion for non-humanitarian support (Commission, 2017c; 2017d).

The Facility has funded these types of initiatives in 2016 and 2017:

- EUR 50 million in humanitarian aid for the immediate needs of refugees;
- EUR 60 million to aid migrants returned to Turkey from Greece;
- EUR 27 million to educate Syrian refugees;
- EUR 20 million to support the Turkish Coast Guard;
- EUR 74 million for humanitarian assistance;
- EUR 1.2 billion to support Syrian refugees;
- EUR 1.4 billion to construct 188 migrant health centers.

Table 4. **Funding for the Facility for Refugees in Turkey**

	2016	2017	Total (in million EUR)
EU Budget			
Humanitarian Aid	165	145	310
Non-humanitarian Aid			
IPA	55	595	650
DCI	10	10	20
IcSP	20	0	20
Subtotal Non-humanitarian aid	85	605	690
Total	250	750	1.000
Assigned revenues from Member States			2.000

Source: First Annual Report on the Facility for Refugees in Turkey, *https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/170302_facility_for_refugees_in_turkey_first_annual_report.pdf*.

9. Conclusion

Since 2015, the EU has committed more than EUR 17 billion in response to the refugee and migration crises. The initial version of MFF 2014-2020 did not anticipate this financial burden, and as a result the EU was forced to make use of a number of fiscal flexibility tools to augment and provide additional EU resources outside of the MFF to address the crises. In some cases, such as the funding of the Facility for Refugees in Turkey, this requires an increase in Member State budgetary contributions. Even with these new funding instruments, as reflected in the deliberations over the 2017 budget, EU officials have been forced to reallocate and redeploy funds between and among budgetary headings and existing flexibility instruments. These decisions came with their own political cost, as these spending choices emphasised differences over refugee policies among Member States. Furthermore, it is worth noting that the Commission's Mid-Term Review/Revision statement calls for more flexibility in the administration of the EU budget (Commission, 2016a). This additional flexibility would enable the EU to act more swiftly to changing conditions and future shifts in refugee flows and migrant care. There may, however, be an inherent trade-off in the search for more flexibility and the creation of new financial tools on the one hand, and democratic oversight and budgetary scrutiny on the other hand. Some of these very new fiscal instruments add an additional layer of complexity to the current funding architecture, and it is too early to determine how well these spending practices stand up to Parliamentarian oversight, monitoring, auditing, and regular reporting. However, what will determine the adaptation of the EU's budgetary framework and the outcome of these spending decisions is how the EU addresses the ongoing refugee and migration crises.

Finally, it is worth noting that the EU budget has been invoked in the dispute between the Member States over the redistribution of refugees. As early as September 2015, Germany's Interior Minister Thomas de Maiziere proposed cutting EU cohesion funds for those Member States that do not accept refugees at the levels set by the Commission (DW, 2015). These funds are allocated from the EU budget for economic development, especially to poorer Member States. At least four of these countries, particularly those in Eastern Europe, rejected the Commission's plan. In 2016, Italian Prime Minister Matteo Renzi also called for penalising these Member States, declaring, "It's necessary that Italy be the promoter of a very tough position toward those countries that have received a lot of money for belonging to the bloc to re-launch their territories, and who are shirking their commitments to relocate immigrants" (DW, 2016). Austria's Chancellor Christian Kern offered the same sanction in 2017, stating, "If countries continue to duck away from resolving the issue of migration… they will no longer be able to receive net payments of billions from Brussels" (Sur, 2017). However, most recently, Germany's Chancellor rejected the use of budgetary sanctions to punish the Member States, saying, "to pay ransom, that won't work in this context" (Kirk, 2017). Thus, despite their differences over the redistribution of refugees within Europe, the EU has refrained from employing EU budgetary resources as internal sanctions against Member States.

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