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Foreword

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Balance sheet-based policies in COVID-19 fiscal packages: How to improve transparency and risk analysis?

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This article discusses why the composition of emergency fiscal packages in response to the COVID-19 pandemic make it important for governments to monitor and manage their balance sheets going forward. It analyses current practices with transparency and risk analysis concerning balance sheet-based measures drawn from case studies of nine OECD countries. It then identifies further steps governments should consider to increase transparency and strengthen risk analysis on COVID-19 related balance sheet-based policies that will help to strengthen fiscal frameworks.

This article was written by Delphine Moretti and Thomas Braendle (both Senior Policy Analysts at the Public Governance Directorate, OECD, at the time of writing). The case studies were prepared by Thomas Braendle and Alexandre Leroy (Public Governance Directorate, OECD). The authors acknowledge the following colleagues for discussions and advice: Jón Blöndal, Andrew Blazey, Stéphane Jacobzone, Scherie Nicol, Scott Cameron, Andrea Uhrhammer and Klas Klaas. Special thanks to Robert Chote, Kings College London and former Chair of the OBR for his comments. The article benefited from a discussion at the Joint Meeting of the Working Party of Senior Budget Officials and its Network on Financial Management and Reporting in February 2021. The article also benefited greatly from comments from senior officials from Australia, Canada, France, Germany, New Zealand and Switzerland.

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Introduction

The COVID-19 pandemic caused a unique shock to the health sector and the global economy: gross domestic product (GDP) in OECD countries is projected to be 5.5% lower than in 2019 (OECD, 2020[1]). In the wake of the coronavirus outbreak, governments have taken the decision to do "whatever it takes" to protect the health of their citizens and support their economies. The size of fiscal packages in response to the COVID-19 crisis has varied across countries, but in most countries they have been bigger than during the global financial crisis (GFC).[1] Therefore, budget balances in OECD economies are projected to remain below 2019 levels, on average by around 4% of GDP in 2022, and government debt-to-GDP ratios are projected to be nearly 20% of GDP higher than in 2019 in the median OECD economy (OECD, 2020[1]).

Not everything is unique in the policy responses to this crisis, however. Some of the policies decided by governments are similar in nature to those adopted during previous crises and confirm earlier trends identified only 12 years ago, when the GFC generated the hardest global economic downturn since the Wall Street Crash of 1929. Governments' toolboxes for countering the crisis include not only "traditional" spending and tax-based stimuli, but also other measures, more complex in nature, aimed at supporting businesses and the economy by providing access to liquidity and preventing insolvencies.

A lesson from the GFC is that such measures create fiscal risks that may crystallise over time and are difficult to measure and assess, both economically and fiscally. Moreover, these government measures often escape the scrutiny that applies to traditional tax and expenditure measures (OECD, 2020[2]). Against the background of the lessons learnt from the GFC and following earlier OECD work on managing fiscal risks (OECD, 2020[2]), this article first discusses why the composition of the so-called emergency fiscal packages adopted by most governments between March and July 2020 will make it important for governments to monitor and manage their balance sheets going forward.[2] Second, the article analyses current practices with transparency and risk analysis based on short case studies of nine OECD countries (Australia, Austria, Canada, France, Germany, New Zealand, Switzerland, the United Kingdom and the United States). These nine countries cover a wide range of diverse budgeting, accounting and fiscal risks management practices and illustrate different approaches in using balance sheet-based policies in COVID-19 fiscal packages. Based on these case studies, the article identifies further steps governments should consider to strengthen their fiscal frameworks and improve the resilience of their public finances in the wake of the COVID-19 crisis.[3]

The bulk of COVID-19 emergency fiscal packages is balance sheet-based

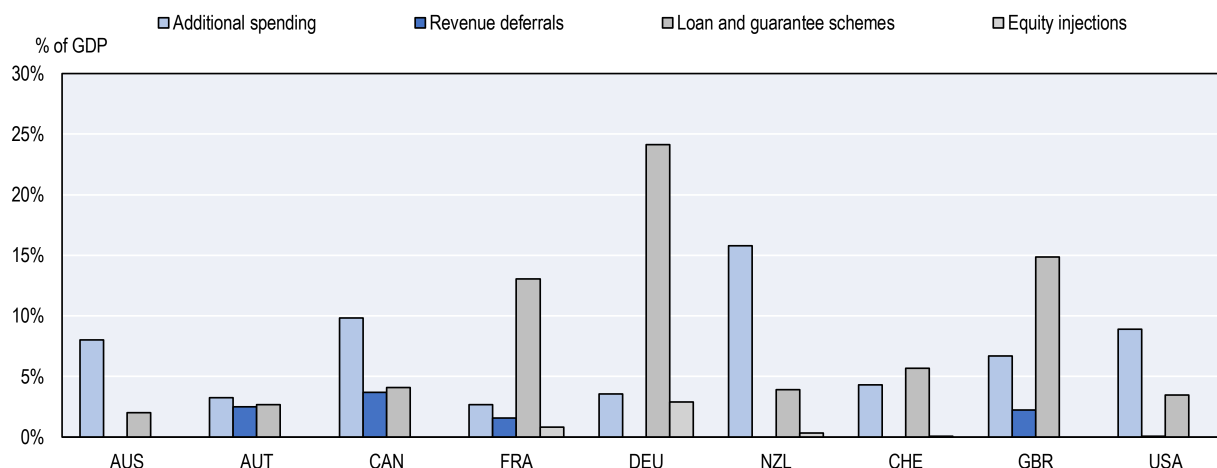
Composition of COVID-19 emergency fiscal packages

The government emergency fiscal packages announced in response to the sudden economic shock of COVID-19 were unprecedented in size and comprehensiveness. On the spending side, besides extra spending on healthcare and specific support to the sectors the hardest hit, the most common measure with a direct impact on budget balances were short-term work schemes and wage subsidies to laid-off workers and the self-employed designed to help preserve incomes and employment. Measures also included extended unemployment benefits and additional support for child or other care needs. On the revenue side, many countries deferred or reduced taxes or social security contributions temporarily or introduced moratoria on private liabilities (such as rents, electricity bills and debt payments) (OECD, 2020[1]).[4]

However, in many case study countries, traditional government spending and tax-related measures were not the largest components of the emergency fiscal packages announced in 2020 (Figure 1). They also included:

- **Government guarantees:** In all nine countries, the government is providing time-bound government guarantees for loans to enterprises issued by the banking sector. These mostly guarantee 70-100% of individual loans, with different mechanisms, terms and conditionality across and within countries, depending on the size and type of beneficiaries, loan amounts, etc. (OECD, 2020[3]). In fact, in most countries studied, the largest part of the announced measures is accounted for by large government guarantees for loans (around 24% of GDP in Germany and around 15% of GDP in the United Kingdom).
- **Government loans:** In some countries studied, the government provided direct loans (New Zealand, United States) or increased the lending capacities of existing funds (France, Canada).
- **Government equity injections**: In some case study countries, equity support (that is, providing capital to a distressed firm in exchange for an ownership stake) is being provided to enterprises - although the nature of the schemes varies widely from targeted support to a limited number of state-owned corporations (New Zealand) to support for a wider range of mostly large enterprises considered to be of "strategic importance" to the economy (France, Germany).
- **Other policies:** Finally, some countries used other policy interventions such as government investments in structured finance to support specific consumer and business funding needs (Australia, Canada); or funds allocated to the refinancing of existing public loan schemes to the private sector (Germany).

Figure 1. Size of emergency fiscal measures announced in case study countries



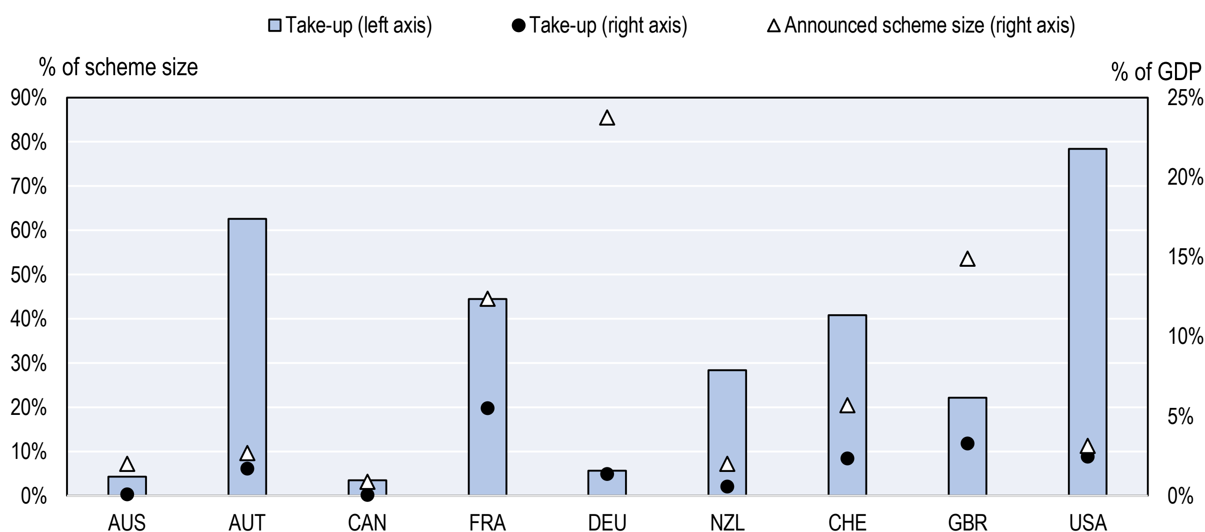
Notes: Emergency fiscal measures refer to measures announced between March and July 2020 and cover the principal measures. The figures on the size of announced measures are often highly uncertain due to the complexity of the underlying schemes and differing institutional coverage and may therefore not be fully comparable across countries. GDP values refer to 2019. For Austria, only the guarantee tier under the liquidity support scheme is taken into account. Due to incomplete disaggregation of information on the support measures, in Canada, New Zealand and the United Kingdom, the "additional spending" category may also include forgone revenue.

There are two limitations when analysing governments' emergency fiscal packages. First, it was difficult to measure the actual scale of the emergency fiscal packages at the time this article was written. A succession of government announcements, supplementary budget bills or "omnibus bills" often makes it challenging to get a consolidated view of all emergency fiscal measures, some of which have been

extended to 2021 due to the further waves of the pandemic.[5] As this article was being prepared, new announcements were still being made and case studies and related figures are therefore estimates based on the public information available by the end of 2020.

Second, understanding the "true scale" of the emergency fiscal packages is particularly difficult due to the complexity of the underlying schemes and the uncertainties surrounding the take-up of certain measures, in particular the large guarantee schemes for banking loans in most countries. These complexities and uncertainties complicate the assessment of the measures' fiscal impact. Significant gaps can already be observed between the stated size of the schemes as part of the emergency fiscal packages vs. the actual take-up, with wide variations across countries, as illustrated by the case studies (Figure 2). For instance, although Germany's guarantee schemes are initially larger than France's scheme, higher take-up in France (EUR 133 billion, or 44% of the stated ceiling for the scheme) means that its current stock of COVID-19 related guarantees is much higher than in Germany (EUR 47 billion, or 6% of the stated ceiling for the schemes). Such differences can be due to varying enterprises' financing needs across countries, differing conditions associated with the schemes, operational bottlenecks, and a greater use of other policy measures, such as grants and short-term working schemes (ECB, 2020[4]).

Figure 2. Take-up of loans under government guarantee schemes



Notes: The take-up of loans under the main government guarantee schemes in the emergency fiscal packages is presented in percentage of the scheme's size (left scale) and in percentage of GDP in 2019 (right scale). The information on take-up refers to the latest data publicly available as of February 2021. Take-up data for Australia and Canada date back to July 2020 and September 2020, respectively. The loan guarantee schemes within Switzerland's and the United States' emergency fiscal packages ended on 31 July 2020 and 8 August 2020, respectively. The overall size of the main guarantee schemes is AUD 40 billion for Australia, EUR 10.7 billion for Austria, CAD 20 billion for Canada, EUR 300 billion for France, EUR 833 billion for Germany, NZD 6.5 billion for New Zealand, CHF 40 billion for Switzerland, GBP 330 billion for the United Kingdom and USD 670 billion for the United States. Canada's main loan programme, worth CAD 55 billion containing certain features resembling a guarantee scheme, is not included in this figure. See the case studies for further details on the government guarantee schemes.

These policy measures contrast with more traditional policies based on spending (e.g. health-related spending or unemployment benefits) and foregone revenue (e.g. tax holiday), which have immediate and irreversible impacts on the debt level and fiscal balance. While the design of guarantee schemes, loan programmes or other such measures varies across countries, a common objective is to support individuals and companies by providing access to liquidity and preventing insolvencies, while preserving the government fiscal balance in the short term. In the past, these measures, although different in nature, have often been described as "off-budget" because they may increase the government debt without affecting

the budget balance in a cash budgeting system (guarantees) or as "alternative" policies because they do not rely on traditional spending. However, if these measures may not be accounted for immediately in a traditional cash budget, they generate assets and liabilities that are reported in accrual basis budget or accounts (Table 1). Therefore, in this article, they are called "balance sheet-based measures".

Managing complexity

Balance sheet-based measures are complex to report and their economic and fiscal cost difficult to evaluate compared to traditional spending and tax measures. This is because the costs and risks associated with these schemes are not immediate and are consequently uncertain and evolving over time. This makes it difficult to understand, or sometimes even find, comprehensive and up-to-date information in the budget documentation and accounts on the initially estimated costs, subsequent variations, etc.

Table 1. Understanding the fiscal impact of governments' COVID-19 policies, cash budgeting or accounting

Category	Nature	Fiscal balance of the current fiscal year (Y)
Immediate and non-reversible	Additional spending	Expense
	Tax holiday	Foregone revenue
Non-immediate and reversible	Deferral of tax	
	Loan or credit line	Expense
	Equity support	Expense
	Guarantee	

Table 2. Understanding the fiscal impact of governments' COVID-19 policies, accrual budgeting or accounting

Category	Nature	Fiscal balance of the current fiscal year (Y)	Balance sheet of the current fiscal year (Y)
Immediate and non-reversible	Accelerated or additional spending	Expense	Asset (infrastructure, e.g. hospital, inventories – e.g. PPE, etc.)
	Tax holiday	Foregone revenue	
Non-immediate or reversible	Deferral of tax	Revenue	Asset (receivable)
	Loan or credit line	Revenue (interest and nominal) Expense (if anticipated default)	Asset (loan)
	Equity instrument	Expense (if market value below book value)	Asset (equity share)
	Guarantee	Expense (if anticipated calls)	Liability (financial contract or provision for anticipated calls) Disclosure (contingent liability for other guarantees)

For example, the Australian Parliamentary Budget Office noted in a recent report that while detail is provided in budget documents about most government spending and taxation, limited information on the balance sheet impact of policies makes it difficult to assess their performance over time (Australian Parliamentary Budget Office, 2020[5]). Similarly, the Canadian Parliamentary Budget Office recently concluded that reporting on the probable or potential budgetary costs of certain balance sheet measures had been lacking in government fiscal reports (Canadian Parliamentary Budget Office, 2020[6]).

Whether a policy is financed through traditional means (direct spending or tax relief) or the balance sheet should principally depend on the merits of the different financing methods for that policy, although in the past it was argued that the increasing use of these policies was often driven by the fact they do not impact the cash balance and escape traditional scrutiny (OECD, 2013[7]).

In the current crisis, government guarantees, which have been widely used, support the sound functioning of credit markets and ease enterprises' quick access to debt finance (OECD, 2020[3]). Guarantee schemes for loans help to maintain the economic confidence of enterprises and reduce the cost of loans for borrowers by transferring some of the credit risk and potential credit losses from banks to governments. At the same time, they do not generate immediate expenses or increases in government gross debt, unlike a subsidy or a loan.[6] However, they risk higher fiscal costs in the medium term and may encourage viable enterprises to take on too much debt (OECD, 2020[1]). Part of these higher costs are induced by reduced private sector incentives to guard against risk (so-called moral hazard) (Schick, 2007[8]). Lenders may have fewer incentives to assess the borrowers' creditworthiness and monitor their behaviour and recipients of guaranteed loans can act in ways that increase the probability of the guarantee being called (OECD, 2013[7]). These fiscal risks need to be reported, budgeted for and explained.

Government loans improve the liquidity provision for the private sector by granting preferential conditions for borrowers. For example, a government loan may have a low interest rate and repayments may be delayed, or contingent on the financial situation of the beneficiary. Government loans do not generate immediate expenses under an accrual budgeting system and do not impact the fiscal balance. Similar to the case of guarantees and equity injections, government loans come at the cost of higher uncertainty. For instance, when issuing loans, there is uncertainty around whether and when the loans will be repaid. Assumptions, terms and risks associated with loan programmes should be disclosed and explained.

Government equity injections have been used in several countries during the current crisis to provide liquidity to financially distressed enterprises that may otherwise face the risk of higher leverage ratios and insolvency (Demmou et al., 2021[9]). Such interventions have mostly targeted large companies whose failure would strain the economy, for instance by increasing unemployment, interrupting essential transport connections or jeopardising the provision of essential goods (OECD, 2020[3]). Government involvement was also justified on the grounds of competition policy concerns and if the enterprise operates in a sector of "strategic importance" (OECD, 2020[10]). Like guarantees, government equity injection schemes do not generate immediate expenses under an accrual budgeting system and do not impact the fiscal balance. Expectations may even be that the shares will generate dividends or will be sold back at higher prices. Risks that more equity injections may be needed, depending on a range of macroeconomic and corporate factors, should, however, be disclosed and explained.

Fitting balance sheet-based policies into the government's fiscal policy and budgetary frameworks raises novel challenges and tensions. Of course, identifying the circumstances that warrant their use is the primary challenge in employing these policies. However, a related issue is whether governments have a good understanding of their short- to long-term economic and fiscal cost and allowing in turn good decision making and monitoring, as well as accountability. Against this background, the following section elaborates on existing practices for the implementation of balance sheet policies drawn from nine case studies of OECD countries. The focus is on guarantee and loan schemes and equity injections, which figure most prominently in governments' emergency fiscal packages in the case study countries (Table 2).

What is the current situation with transparency and risk analysis?

Balance sheet-based measures are nothing new, and have already been extensively used by governments in the past, including during the GFC. Some specific COVID-19 measures are actually similar to those adopted during the previous crisis, during which governments already provided large guarantees to financial institutions. A case in point is the Canadian Insured Mortgage Purchase Program.

The experience gained during the GFC pointed to four main reasons for weaknesses in the understanding of fiscal impacts and risks associated with balance sheet-based measures:

1. The costs and risks associated with guarantees, loans or equity injections were not systematically measured, impairing the robustness and quality of decision making and scrutiny on these policies' design and use.
2. The treatment of these policies in the budget, appropriation bills or medium-term fiscal plans did not always result in appropriate resources being appropriated to fund them, impairing the credibility of fiscal plans.
3. Information on guarantees, loans or equity injections was often difficult to find and incomplete. There was limited awareness of the fact that balance sheets are the primary means by which these policies could be monitored.
4. Although governments have put considerable efforts into better explaining the objectives and results associated with public spending, performance indicators were rarely associated with balance sheet-based measures, creating again a transparency and scrutiny gap compared to traditional spending.

Table 3. COVID-19 balance sheet-based measures in the case study countries

Country	Guarantees	Equity instruments	Loans	Other
Australia	• Coronavirus SME Guarantee Scheme			• Structured Finance Support Fund
Austria	• Guarantee scheme to support loan schemes by promotional banks and institutions			• Support to Austrian Airlines, including guaranteed loans and a government grant
Canada	• Business Credit Availability Program Guarantee • Mid-Market Guarantee and Financing Program		• Canada Emergency Business Account • SME Co-lending Program • Mid-Market Financing Program • Large Employer Emergency Financing Facility	• Insured Mortgage Purchase Program • Support for Agriculture and AgriFood businesses (Farm Credit Canada)
France	• Loan guarantee scheme	• State Shareholdings Agency to support "strategic economic actors"	• Increase of the Economic and Social Development Fund's lending capacity	
Germany	• Increased government guarantee framework to the national promotional bank special loan scheme • Additional guarantee scheme under the newly created Economic Stabilisation Fund	• Equity injections by the Economic Stabilisation Fund		• Refinancing of the national promotional bank guaranteed loans via means of the Economic Stabilisation Fund
New Zealand	• Business Finance Guarantee Scheme	• Equity injections in two state-owned enterprises	• Small Business Cashflow Scheme	
Switzerland	• COVID-19 guarantee scheme for bridging loans by commercial banks • Government guarantee for loans to support airlines and a specific programme for start-ups	• Equity injection in air traffic control sector		
United Kingdom	• Bounce Back Loan Scheme • Coronavirus Business Interruption Loan Scheme • Coronavirus Large Business		• Future Fund	• COVID-19 Corporate Financing Facility operated by the Bank of England on behalf of HM Treasury

Country	Guarantees	Equity instruments	Loans	Other
	Interruption Loan Scheme			
United States	• Paycheck Protection Program		• Loans to the aviation industry and businesses critical to maintaining national security	• Equity injections in the Federal Reserve's emergency lending facilities via special purpose vehicles

Note: The table covers principal measures in emergency fiscal packages. A detailed description of each policy is provided in the individual case studies.

Experiences from the GFC have been extensively analysed and discussed by ministries of finance, international institutions and other fiscal stakeholders during the last decade. These stocktaking exercises have led to substantial revisions of international standards for fiscal governance and reforms in OECD countries. For instance, the OECD *Recommendation of the Council on Budgetary Governance*, adopted in 2015, provides ten recommendations drawing lessons from the GFC (Box 1), including that:

- Budget documents be transparent, with a "clear presentation and explanation of the impact of budget measures", in the context of the wider fiscal plans and objectives of the government.
- Fiscal risks be identified, assessed and managed prudently, by applying "mechanisms to mitigate the potential impact of fiscal risks"; "clearly identifying, classifying by type, explaining and, as far as possible, quantifying fiscal risks, including contingent liabilities"; and "making explicit the mechanisms for managing these risks and reporting in the context of the annual budget".
- Comprehensive government accounts be prepared "in a manner that shows the full financial costs and benefits of budget decisions, including the impact upon financial assets and liabilities."

It is striking that, in line with these recommendations, prior to the start of the COVID-19 crisis, around 90% of OECD countries were preparing accrual-based financial statements including a balance sheet (or were in the process of doing so). Moreover, more than 50% of OECD countries had adopted a framework or developed guidance to manage their fiscal risks (OECD, 2019[11]).[7] This is in stark contrast to the pre-GFC period, when only a quarter of OECD countries were using accrual accounting (OECD/IFAC, 2017[12]) and fiscal risks management was in its infancy in most countries.

Looking at policy design, policy costing, budgeting and reporting, the following subsections take stock of current practices and progress on transparency and risk analysis for balance sheet-based measures by answering the four following questions:

1. Did fiscal considerations, including legislative requirements, guide decision making on the design of balance sheet-based policies during the COVID-19 crisis?
2. What was the level of transparency in the budget documentation on the estimated fiscal costs and risks associated with these policies?
3. Which mechanisms have been applied in allocating resources for these policies in budget and/or appropriation bills?
4. How was the reporting of the financial impacts and outcomes of these policies done?

The findings of the underlying case studies should be read in light of the exceptional circumstances of the past year, however. Throughout 2020, ministries of finance had to cost, fund and deliver resources for emergency policies that evolved and adapted to the development of the COVID-19 pandemic. In this challenging and highly uncertain context, budgetary conventions – e.g. fixed budget calendar, publication of macroeconomic forecasts alongside the budget, arbitration process on spending priorities, publication of budget outturns, etc. – could not always be complied with (OECD, 2020[13]; 2020[14]).

Among the budget conventions that could not be complied with during the crisis, it is notable that new support measures and spending were often announced in successive emergency speeches by heads of state and government. To provide a legal basis for these announcements, some countries tabled successive supplementary budget bills (Austria, France, Germany, the United States). In other countries, the legislature provided advanced authorisation to incur expenditures, with details of spending provided for parliament's scrutiny at a later date (Australia, Canada, New Zealand, Switzerland and the United Kingdom).

Box 1. OECD *Recommendation of the Council on Budgetary Governance*

1. Manage budgets within clear, credible and predictable limits for fiscal policy.
2. Closely align budgets with the medium-term strategic priorities of government.
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner.
4. Ensure that budget documents and data are open, transparent and accessible.
5. Provide for an inclusive, participative and realistic debate on budgetary choices.
6. Present a comprehensive, accurate and reliable account of the public finances.
7. Actively plan, manage and monitor budget execution.
8. Ensure that performance, evaluation and value for money are integral to the budget process.
9. Identify, assess and manage prudently longer term sustainability and other fiscal risks.
10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

Source: OECD (2015[15]).

Policy design

In designing any new policy proposal, governments are expected to be cost-effective and fiscally responsible. Case studies show that such requirements are increasingly applied to balance sheet-based policies, with, for example, legal principles of "sound fiscal management" applying to government assets and liabilities in Australia or a framework guiding the decision-making and design processes for new contingent liabilities in the United Kingdom (HM Treasury, 2020[16]).

Specifically, concerning the widely used loan guarantee schemes aimed at supporting the credit market and providing liquidity to enterprises, the case studies show that, although these schemes have been rapidly set up to ensure quick and broad access to liquidity, in most cases, legislative requirements on cost-recovery (or other types of requirements) have provided fiscal safeguards for the decision-making process.

From a cost-effectiveness and fiscal responsibility perspective, notable features of the policies adopted in the case study countries are highlighted below:

- First, policies are time- and value-bound. In virtually all countries, the overall ceiling for the schemes has been stated by the government in a formal announcement or legislation. The duration of the COVID-19 guarantees is often up to five or eight years, with the possibility to extend it in case of economic hardship, such as in France, Germany and Switzerland. Limits in relation to total enterprise revenue or wage sums often set the maximum value of support. For instance, in countries subject to EU State Aid Regulation, the maximum amount per borrower is typically 25%

of the beneficiary's turnover or twice the wage bill in 2019. Similar restrictions in terms of time- and value-boundedness apply to government loan schemes.

- Second, eligibility criteria and conditionality, cost recovery, and loss-sharing principles aim at targeting beneficiaries in need of support while limiting costs for taxpayers. Most countries are charging risk-based fees or interest payments for guarantees and loans in order to partially cover expected losses and reduce adverse incentives (so-called moral hazard). Exceptions are Switzerland, which provides interest-free COVID-19 loans up to a certain ceiling for individual loans to small and medium-sized enterprises (SMEs) for the first year, and the United Kingdom, where the Bounce Back Loan Scheme allows banks to provide short-term, interest-free loans to enterprises guaranteed by government.

  In most countries, government guarantees leave part of the risk and potential credit losses with the lender and thereby maintain the lender's interest in assessing credit risk and monitoring borrowers' behaviour. The share that is guaranteed often ranges from 70% to 90% of the loan principal, although 100% guarantee schemes are also available in a few countries, including Germany and Switzerland, especially for loans to SMEs.

  The schemes often condition access to guaranteed loans on eligibility criteria, such as the financial health of the enterprise before COVID-19, and differentiate support according to enterprise size. Approval of guaranteed loans often implies conditionality in the form of restrictions on dividend payments, management remuneration and bans on share repurchases or refinancing existing loans, as well as financial disclosure and *ex post* control by public authorities (e.g. Austria, France, Germany, Switzerland, the United States).

- Third, legislation defines the responsibilities for the delivery, monitoring and control of the policies. Governments have often made the choice of relying on the banking sector (e.g. France, the United Kingdom), national promotional and guarantee banks (e.g. Canada, Germany), or separate government finance agencies (e.g. Austria) for delivering their balance sheet-based schemes. This is due to their expertise in carrying out credit risk analysis and reporting, commercial and legal assessments, and their ability to process loan demands quickly. Box 2 illustrates how commercial banks assess credit risk.

  The political responsibility for the policy monitoring and control, however, rests in virtually all cases either with the Ministry of Finance, the Ministry of Economic Affairs or an institution under their supervision. The last of these includes promotional banks (e.g. Canada); national finance agencies (e.g. Australia, France), sometimes set up during the GFC with an extended mandate (e.g. Germany); or new institutions entrusted with the management of the scheme with a transparent corporate governance and decision structure (e.g. COFAG in Austria). While approval of small guaranteed loans is often delegated to the national promotional or guarantee banks, deciding on large loans often involves, by law or regulation, the Minister of Finance and other ministers (e.g. Minister of Economic Affairs) and may include summoning experts (e.g. Austria, Germany).

- Fourth, a number of governments put a strong emphasis on fraud prevention in their policy design. For instance, in Austria, local tax and finance authorities are tasked with detecting fraud in the short-term work schemes, the liquidity support for households and enterprises, including the loan guarantee scheme. In Switzerland, the Supreme Federal Audit Office is tasked with the audit of COVID-19 related measures implementation, with a particular focus on uptake and fraud detection.

This does not mean that weaknesses in the design of individual balance sheet-based policies do not exist. Although it is still very early to assess how effectively each scheme was conceived, designed and implemented, initial notes of warnings and assessments by external watchdogs – independent fiscal institutions and supreme audit institutions – already identify areas for improvements. For instance, although balance sheet policies are initially time-bound, they have been in some cases extended without any specific evaluation mechanism. In addition, questions are sometimes raised on the efficiency of loss-sharing

mechanisms in preventing fiscal risks, e.g. due to banks' perceptions of the high reputational risk involved in litigations with a large number of small-size enterprises that received guaranteed loans. Moreover, since setting up guarantee and loan schemes at speed and providing quick access to liquidity were of primary importance, higher than usual fraud is a risk governments have to acknowledge. In this context, *ex post* audits and learning lessons on the design and implementation of balance sheet-based measures will prove crucial for government credibility.

Concerning equity injections, while the government intervened mostly in large ailing banks during the GFC, interventions in the wake of COVID-19 have been aimed at a wider range of sectors and corporations deemed to be "of strategic importance" and/or the hardest hit by the crisis, such as aviation and tourism. The case studies show that the objectives of the schemes adopted by governments are generally clearly stated, although they may not be aligned with the traditional government ownership policy. The schemes, although funded by the government budget, are often implemented by the state shareholding agency (e.g. France). This means that normal principles and rules for state ownership and governance, for instance, described in the *OECD Guidelines on Corporate Governance of State-Owned Enterprises*, are expected to be applied (OECD, 2015[17]).

From a cost-effectiveness and fiscal responsibility perspective, other notable features of equity injections schemes include *ex ante* conditionality (e.g. Germany's conditionality on financial health of the company before COVID-19 and a business perspective to continue after COVID-19), as well as restrictions on board remuneration, dividend payments and share repurchases, and sometimes the use of preferred equity instruments. In most cases, however, limited information is provided on how governments intend to improve the return on investment for taxpayers over the medium to long term.

Box 2. Credit assessment and quantifying credit risk

While credit assessments are carried out and reported on routinely in the financial sector, similar practices are not yet used by governments to report on the quality of assets and liabilities. This box briefly describes the key elements and concepts of banks' credit assessments. In the context of COVID-19, however, one has to keep in mind that supervisory authorities loosened regulatory requirements and encouraged banks to adjust their credit risk assessment. These regulatory measures complemented governments' policies to provide quick liquidity, in particular the use of guarantees for loans.

What factors are typically taken into account to quantify credit risk?

Lender institutions use different methods to assess the credit risk of a borrower to mitigate losses and avoid delayed payments. For corporate borrowers, credit assessments contain qualitative and quantitative elements covering various aspects of credit risk. The assessment can include the analysis of operating and management experience, corporate governance, previous credit engagements, financial statements, business plans, sector-specific and economy-wide outlooks, asset quality, and leverage and liquidity ratios. Once this information has been reviewed, an interest rate is set to compensate for bearing the risk and the funds are provided subject to contractual terms.

A key element of the credit assessment is the calculation of credit risk. Banks run credit risk departments to assess borrowers' financial health. They use in-house programmes to advise on avoiding, reducing and transferring risk or to refer to third-party providers. Three concepts are typically important in credit risk calculation: probability of default, loss-given default and exposure at default.

Probability of default

Probability of default is the probability of a borrower defaulting on loan repayments defined for a specific assessment horizon, usually one year. Financial metrics – such as cash flows relative to debt, revenues or operating margin trends, and the use of leverage and liquidity – are used when evaluating probability of default. In addition to these quantifiable factors, a company's ability to execute a business plan and its willingness to pay are often factored into the analysis. The probability of default not only depends on a borrower's risk characteristics, but also on the economic environment, including unemployment and GDP as well as sector-specific developments.

Default probabilities are often estimated from historical data using empirical techniques such as logistic regression and discriminant analysis defining cut-offs between "good" and "bad" risks. The simplest approach, taken by many banks, is to use rating agencies' investor services that run models for estimating probabilities of default under various scenarios and define credit ratings and credit risk groups. For the assessment of small and medium-sized enterprises, logistic regression is often used for estimating the default base.

Loss-given default

Loss-given default refers to the amount of loss that a lender will suffer if a borrower defaults, depicted as a percentage of total exposure at the time of default. Several factors influence loss-given default, including any loan collateral and the ability to pursue the defaulted funds through bankruptcy proceedings. Based on different approaches, a bank's total loss-given default can be calculated after a review of all outstanding loans.

Exposure at default

Similar to loss-given default, exposure at default is an assessment of the total loss exposure a lender is exposed to at any point in time. Banks often calculate an exposure at default value for each loan and then use these figures to determine their overall default risk. Exposure at default is a dynamic number that changes as a borrower repays. It is calculated by multiplying each loan obligation by a specific percentage that is adjusted based on loan particulars.

Sources: Corporate Finance Institute (2020[18]); BIS (2006[19]); FSB (2020[20]).

Policy costing

With each budget, it is common practice for governments to provide a costing of each new spending and tax policy proposal that the government has introduced in its fiscal plans and measure their impact on the headline fiscal target. In cases when new policy proposals cannot be costed with accuracy, legislation may require that they be identified and measured as fiscal risks (e.g. the United Kingdom's Charter for Budget Responsibility).

For balance sheet-based policies, whose cash impacts are uncertain and delayed in nature and may even stretch out over the longer term, providing reliable costing and explaining how and when the policy is likely to affect traditional fiscal headlines is challenging, and this is particularly the case for the COVID-19 crisis.

Concerning guarantee schemes, in more than half of the countries studied, initial budget documentation discloses only the maximum exposure and does not include an estimate of the overall cost or the default rate on the schemes (Table 4). Exceptions include Switzerland, the United Kingdom and the United States, which estimate losses over the lifetime of the guarantee scheme; and New Zealand, which estimates the operating expenditures related to guarantee scheme on a four-year period. Interestingly, the United Kingdom's Office for Budget Responsibility is the only institution in the case study countries that produced initially an upside, a

central and a downside scenario based on estimated default rates and loss-given default rates derived from the experience of the GFC (see Box 2 for the calculation of these risk indicators).

Similar findings apply to other balance sheet-based policies, in particular loan programmes. In most countries, the costing information on the new loan programmes is limited to the total size of the loan programme. Few countries provide estimates of the estimated revenue from interest payments and financial guarantee fees or losses from defaults (France, New Zealand, the United States). Concerning equity injections, in most cases, only the nominal value of the equity injection is provided, with no information on the current value of the shares in beneficiary companies, expected rate of return or risks associated with the operation (France, Germany, New Zealand).

Balance sheet-based policies' costing may differ depending on the fiscal report considered, adding complexity for decision makers and oversight bodies. In the United Kingdom, for instance, guarantee schemes have been initially presented as unquantifiable contingent liabilities by HM Treasury, as quantified fiscal risks by the Office for Budget Responsibility and as financial contracts (so-called standardised guarantee schemes) in government statistics.

Information provided in subsequent fiscal documents is only marginally more comprehensive or detailed, although assumptions may be revised and refined after the schemes start being implemented and more information becomes available. In the case of New Zealand, estimates were refined throughout 2020. For the United Kingdom, loss rate assumptions underpinning the estimates of guarantee schemes' costs were revised in recent reports published by the Office for Budget Responsibility, based on information provided by the government. After having indicated an estimate of the scheme's costs in the initial budget documentation, an estimated default rate range was indicated in the law on the guarantee scheme and in the 2021 draft budget.

Finally, among countries that have not produced an estimate of the cost of their balance sheet-based policies, Australia is the only country that discloses its loan guarantee scheme as "unquantified fiscal risk" in the fiscal risks statement of the budget documentation.

Table 4. Information on guarantee schemes in the initial budget documentation

Country	Design (purpose, beneficiaries, eligibility and terms)	Maximum or gross financial exposure	Quantified cost	Default rate estimate	Key assumptions underpinning the default rate estimate
Australia	Yes	Yes	No	No	No
Austria	Yes	Yes	No	No	No
Canada	Yes	Yes	No	No	No
France	Yes	Yes	No	No	No
Germany	Yes	Yes	No	No	No
New Zealand	Yes	Yes	Yes	No	No
Switzerland	Yes	Yes	Yes	Yes	No
United Kingdom	No	Yes[1]	HMT: no; OBR: yes	HMT: no; OBR: yes	No
United States	Yes	yes	Yes	Yes	Yes

Note: HMT: HM Treasury; OBR: Office for Budget Responsibility.
1. In the United Kingdom, the maximum financial exposure is not reported per scheme.

Budgeting

Policy costing and budgeting are two activities of ministries of finance that are closely related but not similar. Once a new policy proposal is costed, the budget should appropriate enough resources to allow

for the policy to be implemented. The way the appropriation of resources is done differs depending on the budget system of the country considered, for example:

- The budget documentation may comprise both an accrual basis budget forecast and appropriations bill at one end of the spectrum (e.g. New Zealand and Switzerland) or just a cash basis appropriation bill at the other end of the spectrum (e.g. France). Other countries may have an accrual basis budget and cash basis appropriations bill (e.g. Australia and Austria) or another type of mix of accrual and cash bases for their budget and/or appropriation bills' formulation.
- The budget forecast may be prepared according to national rules and standards (e.g. Germany) or based on international standards (e.g. International Financial Reporting Standard for the United Kingdom and the International Public Sector Accounting Standard for Austria). Even for these countries that are using the accrual basis for the formulation of their budget, the treatment of some balance sheet policies may differ, e.g. guarantees may be reported as contingent liabilities and provisions (United Kingdom) or as financial contracts (New Zealand).

Because of these different budget systems, the budgetary treatment of balance sheet-based policies differs widely across countries. In the case of guarantees, for instance:

- Appropriations may cover only the estimated annual indemnities for the next fiscal year (France, Germany, the United Kingdom). Under this approach, the guarantee scheme may appear to have no cost in the year the policy is decided. In fact, because premiums are often charged on guarantees, it may even offset the costs in the first year of the scheme (France).
- Appropriations may cover the estimated cost of the scheme over its lifetime (New Zealand, Switzerland, the United States). Therefore, the timing for the future calls of guarantees does not affect the size of the initial budgetary impact. As cash outflows will take place in outyears, a deposit account (notional or actual) may be established (the United States).
- Additionally, when guarantees are considered to be unquantifiable contingent liabilities, no appropriation is allocated in the budget, as any future indemnity will be covered by reserves for unexpected events and emergencies (Australia).

It could be expected that when the full cost of the policy is estimated, a similar amount is budgeted and that when policy costing is not done, no appropriation is recorded. However, the case studies show a more complex situation. Additionally, the accounting basis used for the budget formulation (i.e. cash or accrual basis) does not preclude how resources are allocated or provisioned to cover the future costs of the schemes. For example, on the one hand, Australia and New Zealand both use accrual budgeting, but only New Zealand records a provision specific to the guarantee schemes in its appropriations bill. On the other hand, France and the United States both use the cash basis for their budget, but only the United States records the full cost of the schemes in the accounts.

Reporting

A comprehensive balance sheet is necessary to show the stock of assets and liabilities generated by government policies and how they evolve over time, hence providing information on how the policies unfold, the impacts of any subsequent decision by the government in relation to the policies' design, or of any change in external circumstances.

For most of the countries studied, the year-end government accounts were not available yet when this article was prepared and only interim budget outturns were available on governments' websites. Information provided on financial assets and liabilities generated by the governments' COVID-19 fiscal packages was in most cases non-existent (Table 5), with only Australia and New Zealand regularly publishing interim financial statements including the government balance sheet.

Further, the institutional coverage of the budget outturns may be limited to the central government (e.g. Austria, Canada, France, Germany), meaning that the financial impacts of the balance sheet-based COVID-19 policies implemented by agencies or funds operating at arm's length from the government are not systematically reported. In such cases, separate reporting is usually required from the agency or state-owned enterprise.

It is notable, however, that the Austrian parliament required budget outturns to be tailored to the unprecedented circumstances, with monthly and interim budget outturns comprising detailed reporting of COVID-19 related spending, including on guarantees granted under the scheme run by a state agency.

Finally, as a complement to traditional financial reporting, dedicated government web pages, supported by centralised capability and databases, may provide detailed and up-to-date information about the uptake of certain government schemes. Austria, Canada, France, Switzerland and the United States provide information on the number and volume of government-guaranteed loans, regional and/or sectoral distribution and, in some cases, details on repayments and losses. In Austria, information on the average time for the approval of new loans is provided by the state agency in charge of managing the government guarantee scheme.

Table 5. Assets and liabilities reported in interim budget outturns for case study countries

Country	Guarantees	Loans	Equity injections
Australia	n/c (1)	✓	✓
Austria	✓	No scheme	No scheme
Canada	n/c (1)	n/c (1)	n/c (1)
France	n/c (1)	n/c (1)	n/c (1)
Germany	✓	No scheme	n/c (1)
New Zealand	✓ (2)	✓ (2)	✓ (2)
Switzerland	n/c (1)	n/c (1)	n/c (1)
United Kingdom	n/c (1)	n/c (1)	n/c (1)
United States	n/c (1)	n/c (1)	n/c (1)

Note: n/c: not communicated.

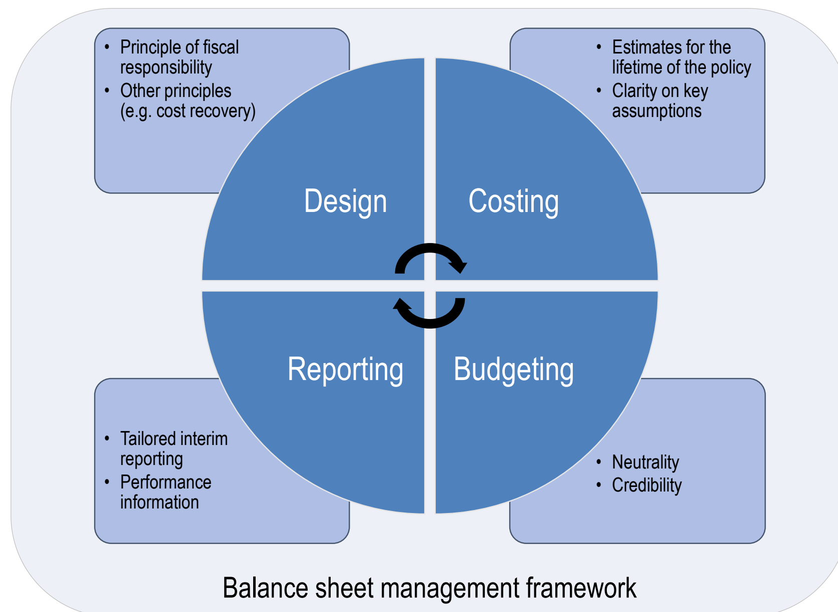
1. Information is not communicated in monthly budget outturn but is available in year-end financial statements.
2. A statement of financial position and a statement of contingent liabilities and assets are included in the interim financial statements of the government of New Zealand.

What further steps should governments consider?

Overall, the case studies show that balance sheet-based policies are increasingly subject to transparency requirements, but these requirements are not yet on par with those applying to traditional spending measures, despite their growing place in governments' fiscal toolkit. This "gap" means that governments' budgetary governance practices still need to evolve to reflect the changing and increasingly complex nature of their policies.

Based on successful elements of the fiscal, budgetary and accounting frameworks of case study countries and previous OECD research, this section aims to provide guidance on what further steps of governments could look like to improve transparency and risk analysis on balance sheet-based policies and, more generally, advance thinking on better balance sheet management. To this end, this section focuses on the policy design and costing of balance sheet-based policies as well as on budgeting and reporting of balance sheet-based policies. Figure 3 frames the way governments could systematically consider and assess steps forward and, thus, shape a management strategy for the balance sheet as a whole.

Figure 3. Transparency and risk analysis requirements for balance sheet-based policies



How can balance sheet-based policies be designed in a fiscally responsible way?

In designing their balance sheet-based policies, governments should be required to comply with the principles of fiscal governance that apply to traditional spending and tax-related measures; that is, depending on the country considered, being fiscally responsible, cost effective, etc. A straightforward way of doing so is to mention explicitly the government balance sheet, alongside spending and tax, in the fiscal legislation, as is done for example in Australia, where the "sound fiscal management" of government assets and liabilities is a legal requirement.

Even where the fiscal legislation ignores the balance sheet, government regulations or policies should define processes and methodologies for the design and formulation of balance sheet measures in accordance with the relevant principles of good budgetary governance. For example, in the United Kingdom, a policy framework was recently set up that guides the design and approval process of balance sheet policies based on criteria evaluating the rationale, exposure, risk and return, risk management and mitigation, and affordability of the specific measure (HM Treasury, 2020[16]).

A common approach for managing the government financial exposure with guarantee and loan schemes was to charge premiums to cover estimated losses and restrict the support in terms of value and time. Loss-sharing arrangements and various elements of conditionality applied to the schemes have also been commonly used to manage the financial exposure of the government. Moreover, legislation often defined the responsibilities for the delivery, monitoring and control of the policies and the underlying schemes. A case in point is the eligibility criteria, the conditionality and the decision-making structure for support by the Economic Stabilisation Fund in Germany.

Due to the context of emergency, and even sometimes expediency, for delivering new and large-scale support measures during the COVID-19 crisis, risk management and public integrity have been a clear concern (OECD, 2020[21]). Some governments have provided a wealth of details on their approach to mitigate a range of perceived risks, in particular regarding fraud, in the legislation (e.g. Austria) and tasked the supreme audit institution with close monitoring (Switzerland). Going forward, this practice should become the norm for any new balance sheet-based policy in order to increase accountability.

How can the lifetime costs and risks associated with new policies be estimated?

In the interest of good decision making, transparency and scrutiny, it is essential to show in the budget documentation the fiscal impact of the whole range of new government policy proposals; that is, new spending, tax measures and for balance sheet-based measures. For spending and tax measures, this impact will be, in most cases, an immediate cash outflow or inflow. Policy costing will therefore consist of measuring these cash inflows and outflows for the next budget year or over a medium-term period (e.g. the period covered by the medium-term fiscal framework) and showing how it will affect compliance with the government fiscal rules or targets (e.g. the cash fiscal balance) and impact fiscal sustainability.

For balance sheet-based policies, cash impacts are delayed. A more relevant approach for costing the policy is therefore to evaluate the revenue and cost of the new policy over its lifetime, assuming the policy is time-bound, and estimating if possible when the cash impacts are most likely to materialise over this period (e.g. Switzerland, the United States). Additional, but still very rare, requirements would include estimating the impacts of new policies on the government balance sheet's key aggregates, as well as showing how it will affect balance sheet-based fiscal targets, e.g. net debt or net worth (e.g. New Zealand).

Estimates of the lifetime costs of balance sheet-based policies are most credible when key assumptions underpinning the government forecasts are disclosed and explained. Reporting on the uncertainty embedded in the costing of policies is equally pertinent. Although such disclosures have been lacking in most cases during the COVID-19 crisis, governments should aim at consolidating or strengthening their practices in this area going forward (Table 6).

In addition, despite the risk-mitigation strategies put in place by most governments, the context of high economic uncertainty created by the COVID-19 crisis generates risks of potentially large additional costs. This increases the importance of recognising and disclosing in budget documentation the fiscal risks in relation to the government balance sheet, defined as changes in the value of assets or liabilities that may affect the government's fiscal position. A related requirement would be that governments explain, where possible, how they intend to prevent or mitigate these residual risks.

Table 6. Possible disclosures on costs and risks for new balance sheet-based policies

Category	Estimated fiscal impacts	Key assumptions
Guarantees (including on credit institutions' loans)	• Government's gross financial exposure in nominal terms • Estimates of the likely fiscal revenue and cost over the lifetime of the scheme (ideally containing the net present value of expected gains or losses)	• Drivers of probability for estimated calls (e.g. based on a credit risk assessment by the banking sector) • Estimated timing of calls on guarantees
Government loans	• Nominal and current value of the loan book • Estimates of the likely fiscal revenue and cost over the lifetime of the scheme (ideally containing the net present value of expected payments)	• Drivers of probability for estimated default rate (e.g. type of recipients) • Estimated timing of defaults
Equity injections	• Value of the equity injection in nominal terms • Expected rate of return, if any	• Key financial information – e.g. net worth of the corporation, expected growth rate, etc. • Government investment strategy (general and in the industry)

How to budget for neutral and credible fiscal plans for balance sheet-based policies?

Irrespective of the specificities of national budget systems, a key objective for governments in budgeting for their balance sheet-based policies should be to promote fiscal responsibility and neutrality regarding the choice of policy instruments. Indeed, regardless of the financing arrangement used to fund a policy (balance sheet-based or traditional spending), a robust decision-making process and sound fiscal planning requires that the estimated full costs incurred by any policy (noting these may be immediate or delayed

costs) be reflected in government spending plans for the year ahead and in the medium-term expenditure framework.

In defining the budgetary treatment of balance sheet-based measures, fiscal responsibility and neutrality considerations require that potentially large risks of future expenditures or losses associated with contingent liabilities and other balance sheet-based measures be considered in *ex ante* budget control. In countries adopting accrual-based budget planning that closely aligns with international financial reporting standards, both the provisions for gains and losses for contingent liabilities and other balance sheet-based measures will be reported either in the main fiscal aggregates or associated notes. Countries that use the cash basis of accounting may consider adopting the accrual basis for the budgetary treatment of certain balance-sheet based policies that feature prominently on their government's fiscal policy toolkit. As previously noted, when such an accrual treatment is adopted in an otherwise cash-basis budget, a deposit account (notional or actual) may be established.

This is the approach adopted by the US federal government since the Federal Credit Reform Act of 1990, which specifies that the budget reflects the anticipated net cost (or savings) of a loan or loan guarantee – known as the subsidy cost – on an accrual basis when the loan is disbursed.

How to tailor reporting with a view to inform budgetary decision making?

As governments make increasing use of balance sheet-based policies, their balance sheet obviously needs to be brought more prominently into budgetary decision making. This does not necessarily mean adopting accrual budgeting, in the sense of preparing a forecast balance sheet or appropriating resources on an accrual basis. It means, more simply, that the government balance sheet should be disclosed and analysed each year in the budget documentation, possibly in a stylised or simplified format, as context for the budget discussion on any new balance sheet-based policy proposal. By establishing these disclosures as part of the routine budget cycle, governments and departments will be better prepared to provide appropriate levels of transparency even during crisis situations under time constraints.

The relevance and comprehensiveness of interim reporting therefore needs to be considered against its legibility for the annual budget discussion. In particular:

- Because financial assets and liabilities could at any point in time become a cash loss or gain, they are important contextual information for evaluating fiscal forecasts and taking new fiscal policy decisions.
- Differences between the government's initial estimates of its balance sheet-based interventions and the value of the assets and liabilities they create also provide important information on whether policies have been implemented according to the government's plans and whether any change of strategy should be put forward for the next fiscal year.

Therefore, although the publication of comprehensive balance sheet information on a monthly basis would be challenging for most countries, interim reports should more systematically include information on key assets and liabilities. Decisions on what information would be most useful should be taken at the national level, depending on the type of balance sheet-based policies most prominently used by the government and ideally after consultation with the legislature (e.g. Austria), and with the independent fiscal institution.

Typically, for a country with COVID-19 guarantee and loan schemes, monthly or quarterly budget outturns could include the following information:

- concerning guarantees, the flows of new guarantees granted and any calls on existing guarantees for the period covered, and the nominal or current value of outstanding guarantees
- concerning loan programmes, the flows of interest or nominal repayments and defaults (if any) for the period covered, and the nominal or current value of the loans book.

In addition, revaluation of the value of the equity shareholdings and loans and revisions of key assumptions that underpin estimates of future calls on guarantees and default rates on loans should be done at least twice a year. In other words, they should be available at least in the mid-year budget outturn published ahead of the start of the discussion on the next fiscal year's budget.

In addition to key figures from interim reports, the budget documentation should comprise basic contextual information to facilitate understanding and scrutiny by key stakeholders, such as parliament and independent fiscal institutions. For example:

- concerning equity stakes and loan portfolios, the budget documentation could explain whether the current value of financial assets is off-setting any borrowing required to finance them and discuss the reason of any significant write-down in the value of these financial assets
- concerning the stock of outstanding government guarantees, the budget documentation could report the cumulated revenue and expenses in relation to each scheme and explain any change to key assumptions underpinning the provisions for future calls
- for all financial assets and liabilities, commentaries should allow readers to understand whether any change in the current value of key financial assets and liabilities is due to the government's own actions and decisions, or to changes in external economic circumstances (revaluations).

How to manage the balance sheet?

For governments that are regularly using their balance sheet as a policy tool, two important objectives should be to:

1. Clarify their overall strategy and objectives for managing the government balance sheet, which can simply involve sound or prudent fiscal management; or more specific objectives, such as seeking value for money, managing risks to the economy and linking the balance sheet to citizens' well-being (New Zealand); as well as increasing the resilience of public finances (IMF, 2018[22]).
2. Facilitate better understanding of what results these policies have, both in terms of financial impacts (what the government owns and owes on behalf of the public) and outcomes (what the government has achieved).

Defining a balance sheet management strategy and reporting on its implementation, although important and necessary at a time when the size of the government's balance sheet is set to dramatically increase, is a step that has been taken by very few countries. In New Zealand, a review is done at least once every four years. The report presenting the results of this review classifies all assets and liabilities into three functional classes (social, financial and commercial) and provides financial and non-financial performance measures of the main assets and liabilities over time. The United Kingdom, following a two-year Balance Sheet Review (HM Treasury, 2020[23]), just developed a similar framework. This report proposes setting up a central authority that, among other tasks, would co-ordinate balance sheet-based policies and handle their financial reporting across government agencies and departments.

An intermediary step to consider by countries is to more systematically explain the objectives and report on the results associated with their balance sheet-based policies, similar to what is done for spending in those countries that have adopted performance budgeting. Concerning equity injections, for instance, in France, the draft 2021 Budget Bill includes a *Report Relative to the State as a Shareholder*, which presents the mission and investment doctrine of the State Shareholdings Agency and details the impact of the COVID-19 crisis on its portfolio and the performance of its investments. The document also discusses the plans to counter the crisis and support state-owned companies. In addition, the *Annual Performance Projects Relative to the Financial Holdings of the State* report includes performance indicators to assess the results of the government in delivering its stated objectives. In this context, the *OECD Guidelines on the Corporate Governance of State-owned Enterprises* can inform the discussion on good practices for government equity injections (OECD, 2015[17]).

Concluding remarks

When large balance sheet policies were initially implemented by governments, these measures were assumed to be exceptional and especially taken in the context of large crises such as the GFC. It is too soon to draw firm conclusions on the efficacy of governments' balance sheet-based policy response to the COVID-19 crisis, but it is not unreasonable to consider that these non-standard measures could become a more prominent and permanent tool at the disposal of governments, giving them more policy options during both normal *and* stressful times.

This article formulated some initial – necessarily tentative at this stage of the crisis – observations on transparency and risk analysis practices in OECD countries. Taken together, they suggest that balance sheet policies are not yet on par with traditional spending policies in terms of fiscal transparency and risk management. Further, although most OECD countries are now publishing an annual government balance sheet, these balance sheets tend to be under-utilised and under-scrutinised.

A common lesson from both the GFC and the COVID-19 crises is therefore that governments must be better prepared to use balance sheet-based policies. For ministries of finance, readiness to use regularly the balance sheet as a policy tool involves improving principles and methodologies on policy design and costing, risk management, budgeting, and reporting in a way that is suited to the specificities and complexities of these policies. A further important step that only few countries have taken so far would be to define a management strategy for the balance sheet as a whole, and to report on the results achieved against the government objectives.

Questions remain to be answered on the frameworks and methodologies that can best support the use of balance sheet-based policies in governments' fiscal toolkits. These questions should be covered in the OECD's agenda on budgetary governance over the years ahead. The next step of this agenda will be to discuss approaches and methodologies for better budgeting the estimated costs of balance sheet-based policies, in particular, with regard to the United States' experience with the Federal Credit Reform Act of 1990 (Anderson and Burke, 2021[24]).

Case studies

The nine case studies of selected OECD countries that follow illustrate different approaches in using balance sheet-based policies in COVID-19 emergency fiscal packages, e.g. regarding the number and the size of the announced schemes and the corresponding transparency and risk analysis practices. Taken together, the countries cover a wide range of the diverse budgeting practices and processes observed in OECD countries, including the use of cash or accrual budgeting, the publication of cash or accrual interim and year-end accounts, and the reporting and/or management of fiscal risks (Table 7).

Table 7. Selected features of case study countries' budgetary frameworks

Country	Type of budgeting system	Type of accounting system	Framework or guidance for fiscal risks management	Estimated size of announced loan and guarantee schemes (% of GDP)
Australia	Accrual	Accrual	Yes	< 5%
Austria	Mixed	Mixed	Yes	< 5%
Canada	Accrual	Accrual	No	< 5%
France	Mixed	Accrual	No	> 10%
Germany	Cash	Cash	Yes	> 10%
New Zealand	Accrual	Accrual	Yes	< 5%
Switzerland	Accrual	Accrual	Yes	5-10%
United Kingdom	Accrual	Accrual	Yes	> 10%
United States	Mixed	Accrual	No	< 5%

Source: OECD (2019[11]); case studies.

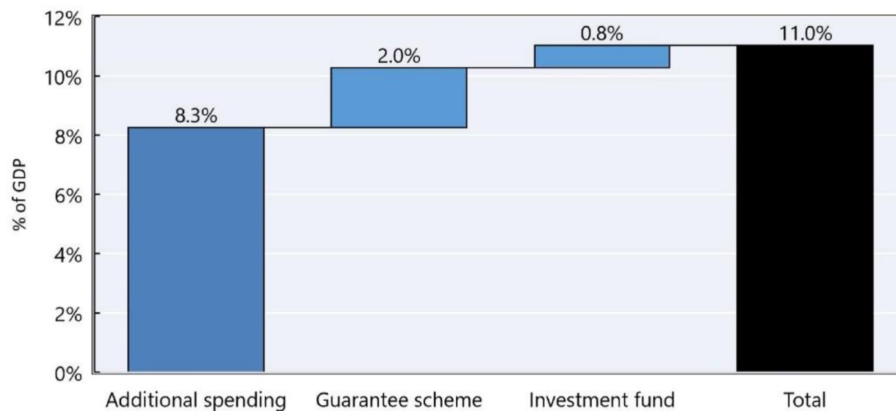
Each case study provides a brief summary of the emergency fiscal package in response to COVID-19 and describes the policy design of the principal balance sheet-based measures, including guarantees and loans schemes and equity injections. It then briefly describes the legal basis and institutional responsibilities for the implementation of these measures. Finally, it presents the country's transparency and risk analysis practices based on a review of budgetary documentation, budget outturns, year-end accounts or other government fiscal reports publicly available at the time when this article was prepared (end of 2020).

Australia

Emergency fiscal package in response to COVID-19

From March to July 2020, the Australian government announced AUD 219 billion (11% of GDP) worth of measures in order to counter the COVID-19 crisis (Figure 4).[8] Of the total package, AUD 164 billion (8.3% of GDP) were additional budgetary expenditures, including two schemes for supporting the economy, both of which extend to 2021 (the JobKeeper Payment and Boosting Cash Flow for Employers, respectively AUD 85.7 billion and AUD 31.9 billion) and health-related spending (AUD 9.4 billion). The fiscal package also included balance sheet measures amounting to AUD 55 billion (2.8% of GDP).

Figure 4. Size of emergency fiscal measures in Australia



Note: The "investment fund" category corresponds to the Structured Finance Support Fund. These figures exclude the Term Financing Facility.
Source: Commonwealth of Australia (2020[25]).

Coronavirus SME Guarantee Scheme

The Coronavirus SME Guarantee Scheme supported up to AUD 40 billion (2% of GDP) of lending to SMEs through enhancing lenders' ability to provide cheaper credit, allowing many otherwise viable SMEs to access vital additional funding to get through the impact of the COVID-19 crisis, recover and invest for the future. Under this scheme, the Commonwealth government guaranteed 50% of new loans issued by participating lenders to SMEs, thereby exposing the government to up to AUD 20 billion of losses (1% of GDP). The scheme was delivered in two phases. Phase 1 started on 23 March 2020 and closed for new loans on 30 September 2020. Phase 2 commenced on 1 October 2020, and was available for loans made by participating lenders until 30 June 2021. Phase 2 allowed SMEs to borrow a higher amount than under Phase 1, for a longer period and for broader purposes.

Structured Finance Support Fund

The Structured Finance Support Fund (SFSF) invested up to AUD 15 billion (0.8% of GDP) to ensure small lenders have continued access to securitisation markets. According to the SFSF website, the fund's investments covered three main areas: "(1) public (primary and secondary) markets; (2) private (warehouse) markets; and (3) forbearance (the establishment of arrangements to assist small lenders to provide forbearance for borrowers experiencing COVID-19 related hardship)" (Australian Office of Financial Management, 2020[26]).

Legal basis and institutional responsibilities for the balance sheet measures

Australia, whose financial year runs from 1 July to 30 June, delayed its budget from 12 May until 6 October to have more time to understand the economic and fiscal impacts of COVID-19 and ensure that the 2020-21 Budget can set out the path to economic recovery.

The enabling legislation for the SME guarantee scheme – the Guarantee of Lending to Small and Medium Enterprises (Coronavirus Economic Response Package) Act 2020 – and the SFSF enabling legislation – the Structured Finance Support Fund (Coronavirus Economic Response Package) Act 2020 – were both introduced in parliament and passed on 23 March 2020. The legislation included an advance authorisation of AUD 40 billion for spending related to COVID-19 (an advance to the Minister of Finance). Further legislative changes were passed in subsequent weeks to deliver the government measures.

Concerning institutional responsibilities for the implementation of the SFSF, the responsible minister delegated the administration to the Australian Office of Financial Management, the country's debt management office. Its mandate is to achieve over the medium to long term a positive net financial return. The minister also delegated responsibility for the Coronavirus SME Guarantee Scheme to senior officials in his department.

Transparency and risk analysis

Australia has a system of accrual budgeting and accounting. The Budget papers and the Mid-Year Economic and Fiscal Outlook set out the Australian government's economic and fiscal outlook, its economic plan, and budget priorities (OECD/IFAC, 2017[12]). In addition, the government introduces three initial appropriation bills on Budget night each year.[9] Three additional appropriation bills can be introduced into parliament during the same year to meet the additional financial requirements that have arisen since the Budget, which were not covered by the first set of annual appropriation acts. Concerning reporting, the government publishes monthly financial statements for the general government and, at year-end, a final budget outcome and consolidated financial statements (Moretti, 2018[27]). Finally, the government is legally required to manage fiscal risks faced by the Commonwealth prudently, including risks arising from the management of assets and liabilities. Legislation also requires that the budget economic and fiscal outlook report contain a statement of fiscal risks (OECD, 2020[2]).

Coronavirus SME Guarantee Scheme

The initial emergency legislation required that the maximum appropriation under the scheme must not exceed AUD 20 billion. Further information was provided in the July 2020 Economic and Fiscal Update, which indicates that borrowers had accessed a total of AUD 1.5 billion at that date. In addition, the statement of risks included in the 2020-2021 Budget Strategy and Outlook reported the guarantee scheme as an "unquantifiable contingent liability".[10] Consistent with this, the 2020-21 Budget does not comprise any provision for losses in relation to this scheme as "the total financial impact of the Scheme cannot be quantified at this time" (Commonwealth of Australia, 2020[28]). The statement of risks identified the scheme as an indemnity, defined as "a legally binding promise whereby a party undertakes to accept the risk of loss or damage another party may suffer". Consistent with this, the 2020-21 Budget does not comprise any provision for losses in relation to this scheme as "the total financial impact of the Scheme cannot be quantified at this time" (Commonwealth of Australia, 2020[28]).

Concerning reporting, the Commonwealth monthly financial statements and *Final Budget Outcome* for 2019-20, published on 25 September 2020, did not disclose the stocks or flows of contingent liabilities such as the Coronavirus SME Guarantee Scheme. However, this information should be available in the Australian government's consolidated financial statements.

The Treasury set up an Economic Response to the Coronavirus – Coronavirus SME Guarantee Scheme web page which provides details on the key parameters of the scheme as well as the relevant legal documentation (Australian Treasury, 2020[29]).

Structured Finance Support Fund

Assets held in any government investment fund other than the Future Fund are captured in the "other" category of "investments, loans and placements" and cash flows from investments are included in the net debt fiscal measure (Australian Parliamentary Budget Office, 2019[30]). Net cash flows from investment in financial assets for policy purposes are reported in the Commonwealth monthly financial statements as an aggregated figure. In addition, the *2020-2021 Budget Strategy and Outlook* forecasts that net negative cash flows from investments made by the Structured Finance Support Fund will amount to AUD 13.2 billion over the next four fiscal years, which including 2019-20 cash flows totals approximately AUD 15 billion.[11]

The Australian Office of Financial Management publishes quarterly updates on the amount of funds committed by the SFSF and on the market transactions supported by the fund and their volumes on its website. As of 30 September 2020, they amounted to AUD 3.6 billion. The Australian Office of Financial Management also publishes its annual report on its website and on the Australian government's Transparency Portal (Australian Government and Australian Office of Financial Management, 2020[31]). Among other things, the report details the fund's financial performance and maximum exposure to the credit risk of structured (securitisation) finance securities and related loss allowances. Performance indicators are included in the 2020-21 corporate plan.

The Portfolio Budget Statements for 2020-2021 (Australian Department of the Treasury, 2020[32]) detail two performance criteria related to the SFSF. The estimated budgeting impacts of the fund are also aggregated in the Australian Office of Financial Management's administered budgeted financial statements.

The 2020-21 Budget documents (Commonwealth of Australia, 2020[33]) contain a table dedicated to the fund's estimated opening balance for the Budget and comparator years, estimated cash inflows and outflows during the year, and estimated closing balance at the end of the Budget and comparator years.

Austria

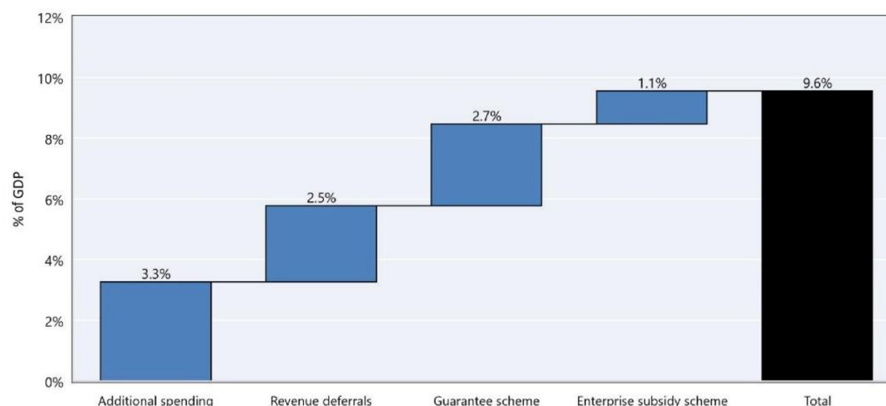
Emergency fiscal package in response to COVID-19

Overall description

The government announced a support package of EUR 38 billion, or 9.6% of GDP in March 2020 (Figure 5). This package included: tax-related measures, such as deferrals of taxes and social security contributions (EUR 10 billion); and other spending and balance sheet measures under a newly established COVID-19 Crisis Management Fund with a budget of EUR 28 billion. This Crisis Management Fund provided funding to increase the capacity of the health sector and to support strongly affected sectors, such as the hospitality sector, freelancers, non-profit organisations and small businesses. Moreover, the short-term work scheme was extended, increasing the budget of the Public Employment Service Austria.

This Crisis Management Fund also financed a newly created liquidity support scheme for enterprises ("Corona Hilfsfonds"), with a budget ceiling of EUR 15 billion. EUR 10.7 billion could be provided as government guarantees to secure operating loans (see below). The remaining EUR 15 billion, i.e. EUR 4.3 billion could be allocated as subsidies to cover fixed operating costs up to 75% and a limit of EUR 90 million per enterprise. In addition, the federal government supported Austrian Airlines with guaranteed loans of EUR 300 million and grants of EUR 150 billion.

Figure 5. Size of emergency fiscal measures in Austria



Sources: Austrian Ministry of Finance (2020[34]; 2021[35]).

COVID-19 Crisis Management Fund and government guarantees

The COVID-19 Crisis Management Fund provided financing for the new guarantee and subsidy scheme that was managed by the newly established COVID-19 Financing Agency of the federal government (COFAG). COFAG was under the supervision of the Ministry of Finance.

The government guarantee scheme for bank loans was time-bound as enterprises could apply between March and 30 June 2021. Enterprises could apply for interest-free and premium-free bank loans (for the first two years) of up to EUR 0.5 billion that were quickly paid out and fully secured by the government for five years. For amounts above EUR 0.5 million, enterprises could apply for bank loans of up to 25% of their total annual revenue or up to an amount of twice the annual wage sum and up to EUR 120 million. Compliant with EU regulations, these amounts were paid out with an interest rate of up to 1% and a guarantee premium between 0.25% and 2% depending on the enterprise size and the loan maturity. These loans were secured by the government to 90% for five years with the possibility of extension of up to ten

years. Individual banks in co-ordination with the federal promotional bank (aws) for SMEs, the Austrian tourism and hotel bank (ÖHT) for tourism enterprises, and the Austrian control bank (OeKB) for large enterprises were responsible for processing the loans, which were then authorised by COFAG.

There was conditionality associated with the loans guaranteed by the government, including the financial health of the enterprise before COVID-19, urgent liquidity needs, restrictions on bonus and dividend payments, ban on the use of guaranteed loans to refinance existing loans, financial disclosure, and *ex post* control. Based on COVID-19 legislation, the government implemented *ex post* control to detect fraud in the short-term work schemes, the liquidity support for households and enterprises, including the guarantee schemes for loans. This *ex post* control was primarily carried out by local tax and finance authorities under the supervision of the Ministry of Finance (Austrian Ministry of Finance, 2020[34]).

Legal basis and institutional responsibilities for the balance sheet measures

While the supplementary 2020 Budget Act allocated the funds, COVID-19 measures were principally based on several successive COVID-19 legislations throughout 2020. As to balance sheet measures, the main legislation was the Law on the Crisis Management Fund (COVID-19 Fund Act) (Republic of Austria, 2020[36]). The federal directive concerning measures necessary to maintain solvency and to bridge the liquidity of enterprises related to COVID-19 was the primary legal document for the guarantee and subsidy scheme run by COFAG. This directive defined the role of COFAG and the obligation of full disclosure by enterprises if needed (Republic of Austria, 2020[37]). The federal parliament adopted both the law and the directive in March 2020.[12] The *ex post* control was based on COVID-19 legislation to counter fraud, adopted in May 2020 (Republic of Austria, 2020[38]).

COFAG has a codified corporate governance, including oversight by government and key stakeholders. The agency has substantial reporting duties *vis-à-vis* the federal government, the Ministry of Finance, the federal parliament, and its supervisory and advisory boards. The COFAG supervisory board authorises guaranteed loans above EUR 10 billion. In addition, the advisory board is closely involved in COFAG decisions on guarantees and subsidies, particularly for large guarantees (above EUR 25 million) and subsidies (above EUR 800 000). The advisory board is composed of independent experts, representatives from trade associations, chambers of commerce, and labour and trade unions, as well as parliamentarians. The supreme audit institution can carry out an *ex post* assessment of COFAG's activities (COFAG, 2020[39]).

Transparency and risk analysis

The federal budget and financial statements are prepared on an accrual basis using International Financial Reporting Standards (IFRS) as adapted for the public sector. The financial statements are audited by the supreme audit institution. The Ministry of Finance prepares monthly outturn reports, quarterly reports and a financial statement. At the end of the year, a short stand-alone guarantee overview is regularly presented (OECD/IFAC, 2017[12]). As for fiscal risks, each line ministry has its own risk management and reports to the Ministry of Finance and its central risk unit. However, no fiscal risk report is published (OECD, 2019[11]).

Reporting based on the COVID-19 Fund Act

According to the COVID-19-Fund Act, the Minister of Finance has to report regularly on the COVID-19 measures and its financial consequences to the Finance Committee of the federal parliament. The monthly budget report and the quarterly reports include a detailed COVID-19 reporting. This COVID-19 reporting includes, for instance, an overview of the development of the tax-related measures (e.g. concerning the number and sum of tax reliefs and deferrals), the use of short-term work and of guarantees and subsidies to support enterprise liquidity. Concerning the guarantee scheme run by COFAG, the COVID-19 reporting describes the development of the number of requests and the volume of guaranteed loans over time and differentiated according to the target groups and responsible institutions (aws for SMEs, ÖHT for tourism

and OeKB for large enterprises). As of 15 February 2021, more than 27 000 requests had been submitted and a volume of EUR 6.7 billion granted (Austrian Ministry of Finance, 2021[40]). Information on the probability of guarantees being called or potential fraud is not published.

The Supplementary Budget Act 2020 endowed the COVID-19 Crisis Management Fund with EUR 20 billion and an additional excess credit provision of EUR 8 billion. In accounting terms, the funds are made available to the departments as payments from the COVID-19 Crisis Management Fund, which is reported under the budgetary rubric 45 "federal assets" ("Bundesvermögen"). In order to map and track the fund's resources in the budget, a separate budget item with a new codification was set up.

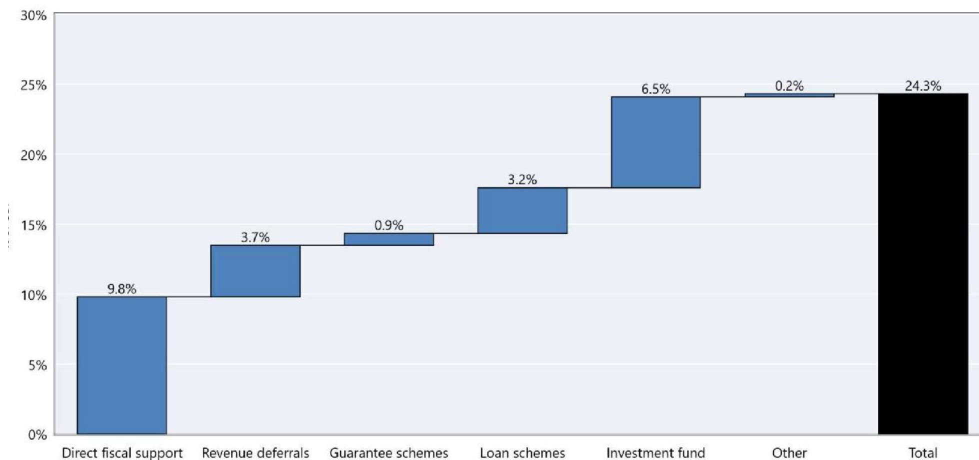
In Annex I of the Budget Act 2021, the objective of strengthening the economy via support measures, i.e. guarantees and subsidies run by COFAG, is defined. In the 2021 Budget Report, the government allocates an additional EUR 9.2 billion for the COVID-19 Crisis Management Fund, including financing the short-term work scheme. The 2021 Budget Report details the expected financing needs within the COVID-19 Crisis Management Fund along the different policy areas and discusses all measures.[13] Apart from extending the short-term work scheme, the direct enterprise subsidy scheme to cover fixed operating costs, run by COFAG, is allocated EUR 4 billion for 2021. EUR 1.4 billion are allocated for guarantees. The explanations in the supplementary reports to the Budget Act ("Budgetbeilagen") "for the rubric 45 'federal assets'" list the expected guarantee payments differentiated for the aws, ÖHT and OeKB (Austrian Ministry of Finance, 2020[41]).[14] Assumptions underpinning this information, such as the probability of guarantees being called or potential fraud, are not published.

Canada

Emergency fiscal package in response to COVID-19

From March to August 2020, the Canadian federal government announced measures of CAD 426 billion (24.3% of GDP) to respond to the COVID-19 crisis, displayed in Figure 6. CAD 227 billion (9.8% of GDP) were additional or accelerated budgetary expenditures, notably the Canada Emergency Wage Subsidy (CAD 83 billion, 3.6% of GDP). Canada also announced sizable revenue deferrals measures amounting to CAD 85 billion (3.7% of GDP). Balance sheet measures amount to CAD 250.2 billion (10.8% of GDP).

Figure 6. Size of emergency fiscal measures in Canada



Notes: The guarantee schemes category includes the Business Credit Availability Program Guarantee. The loan schemes category includes the Canada Emergency Business Account and the SME Co-lending Program. For the Mid-Financing Market Guarantee and Financing Program, the Mid-Market Financing Program and the Large Employer Emergency Financing Facility, there was no indication for the schemes' overall size as of end-December 2020. The "other" category corresponds to support for Agriculture and AgriFood businesses (Farm Credit Canada). This measure comprises a mix of balance sheet instruments.
Source: Department of Finance Canada (2020[42]).

Guarantee schemes: The Business Credit Availability Program Guarantee and the Mid-Market Guarantee and Financing Program

The Business Credit Availability Program Guarantee aimed at covering the operating costs of businesses affected by the COVID-19 crisis. The total programme envelope was CAD 20 billion. The government guaranteed 80% of the principal of new loans to SMEs. The maximum amount one can borrow was CAD 6.25 million per SME. Loans provided under this scheme were to be repaid within five years. The government charged, on the full amount of the loan, guarantee fees of 1.8% to financial institutions providing the loans. For smaller loans, these fees could be deferred for the first six months. The scheme opened on 17 April 2020 and will close in December 2021.

Under the Mid-Market Guarantee and Financing Program, the government guaranteed 75% of new loans between CAD 16.75 million and CAD 80 million, for businesses with a turnover between CAD 50 million and CAD 300 million. As of end-December 2020, there was no indication of the size of this scheme.

Loan schemes: The Canada Emergency Business Account, the SME Co-lending Program and the Mid-Market Financing Program

The Canada Emergency Business Account was intended to support businesses covering their costs as their revenues dropped during the COVID-19 crisis. Applications to the scheme opened on 9 April 2020. The closing date for applications was extended several times and was last set, at the time of writing, to 31 March 2021. This programme was estimated at CAD 55 billion. This interest-free loan programme substantially evolved expanding the maximum amount one can borrow from CAD 40 000 to CAD 60 000. The Canada Emergency Business Account provided loans of up to CAD 40 000 to SMEs and non-profits. Under the CAD 40 000 loan format, 25% of the amount repaid by 31 December 2022 is forgiven (up to CAD 10 000 per borrower). Half of the additional CAD 20 000 financing is also forgiven if the additional credit is repaid by 31 December 2022. As such, under the expanded Canada Emergency Business Account, a total of CAD 20 000 would be forgiven if the balance of the loan is repaid on or before 31 December 2022. If the loan cannot be repaid by 31 December 2022, it can be converted into a three-year term loan with an interest rate of 5%.

The SME Co-lending Program was estimated at CAD 20 billion. Under this scheme, eligible businesses could borrow between CAD 1 million and CAD 12.5 million for cash flow needs, including debt repayment, at a commercial interest rate. The government provided 80% of the loan amount while a financial institution provided the remaining 20%. There was a possibility of postponing principal payments for up to 12 months. The opening date for applications was 24 April 2020. The closing date for applications was extended to June 2021.

The Mid-Market Financing Program provided 90% of junior commercial loans between CAD 12.5 million and CAD 60 million while the borrower's financial institution provided the remaining 10%. This programme was targeted at businesses whose financing needs exceed credit available under other measures. As of end-December 2020, there was no indication of the size of this scheme.

The government also launched a Large Employer Emergency Financing Facility in May 2020. This loan scheme aimed at providing liquidity to Canada's largest employers hit by the pandemic. The minimum size of loans was CAD 60 million, on commercial terms. The target businesses must have annual revenue of at least CAD 300 000. As of end-December 2020, there was no indication of the size of this scheme.

Insured Mortgage Purchase Program

By purchasing mortgage-backed securities from financial institutions, the Insured Mortgage Purchase Program provided them with stable funding so that they could in turn lend to businesses and consumers. Under this programme, the government stood ready to purchase up to CAD 150 billion of mortgage-backed securities.

Legal basis and institutional responsibilities for the balance sheet measures

Canada, whose financial year runs from 1 April to 31 March, delayed its 2020 Federal Budget due to the COVID-19 crisis. In March 2020, the parliament amended its Financial Administration Act to permit the Governor General's special warrants, previously used to fund government during election periods, to provide funding during the pandemic-related suspension of parliamentary meetings, before members returned to pass a substantial crisis response bill in an emergency sitting. The resulting legislation, the Act respecting certain measures in response to COVID-19, required the Minister of Finance to report to the Standing Committee on Finance every two weeks on the use of emergency financial powers that were granted. In response, the government submitted ten biweekly reports on Canada's COVID-19 Emergency Response and the use of emergency financial powers contained in the act to the Finance Committee, from 1 April to 6 August 2020 (Parliament of Canada, 2020[43]). The government also provided updates on its COVID-19 Economic Response Plan in an *Economic and Fiscal Snapshot* released on 8 July 2020, which

did not include medium- or long-term projections. In November, a Fall Economic Statement was published. As of early December 2020, no budget had been published.

The Business Credit Availability Program corresponds to a partnership between Export Development Canada, Business Development Canada and private financial institutions to manage the loan and loan guarantee schemes. Export Development Canada, Canada's export credit agency, manages the Canada Emergency Business Account, the Business Credit Availability Program Guarantee as well as the Mid-Market Guarantee and Financing Program. Business Development Canada, Canada's development bank, administers the SME Co-lending Program and Mid-Market Financing Program. Both Export Development Canada and Business Development Canada are Crown corporations, wholly owned by the government of Canada and accountable to the parliament via the Minister of Small Business, Export Promotion and International Trade. These corporations operate at arm's length from the government. The Act respecting certain measures in response to COVID-19 temporarily provided the Minister of Finance with the flexibility to increase Export Development Canada's and Business Development Canada's capital and contingent liability limits. As such, Export Development Canada's contingent liability limit was increased from CAD 45 billion to CAD 90 billion. This flexibility ended on 30 September 2020.

A Crown corporation, the Canada Mortgage and Housing Corporation, administers the Insured Mortgage Purchase Program (IMPP). The IMPP was put in place in 2008-10 during the GFC. The government reactivated and revised it at the onset of the COVID-19 crisis. The Act respecting certain measures in response to COVID-19 also amended the Canada Mortgage and Housing Corporate Act to authorise the Minister of Finance to make capital payments to the Canada Mortgage and Housing Corporation. In April 2020, the government raised the Canada Mortgage and Housing Corporation's legislative limits to guarantee securities and insure mortgages from CAD 50 billion to CAD 150 billion.

Transparency and risk analysis

Canada has a system of accrual budgeting and accounting (OECD/IFAC, 2017[12]). The Budget Plan and an Economic and Fiscal Update (or Fall Economic Statement) usually set out the federal government's economic and fiscal outlook, its economic plan, and budget priorities. In addition, the federal government usually introduces five appropriation bills each year. Concerning reporting, the government publishes monthly fiscal monitors for the federal government and, at year-end, consolidated financial statements, the *Public Accounts Canada* (Moretti, 2018[27]). Departments, agencies and Crown corporations also prepare quarterly reports. Finally, the government does not publish a framework for fiscal risks management (OECD, 2019[11]).

Canadian government

The *Economic and Fiscal Snapshot*, published on 8 July 2020, estimated at CAD 13.75 billion the loan forgiveness costs of the Canada Emergency Business Account Program (Government of Canada, 2020[44]). It does not report on the budgetary impact of other loan and loan guarantee programmes on a per-programme basis. The *Fall Economic Statement 2020* reports on the budgetary impact of all loan and loan guarantee programmes on an aggregate basis (Government of Canada, 2020[45]). These schemes' estimated net profits and losses are not disclosed separately, but aggregated with revenues from other activities.

With regards to the uptake on the SME Co-lending Program, on 6 August 2020, the 10th biweekly report from the Department of Finance to the House of Commons Standing Committee on Finance indicated an uptake of about CAD 0.5 billion (Parliament of Canada, 2020[43]). The report also indicates that CAD 0.5 billion were also lent under the SME Co-lending Program.

Similarly, *the Fall Economic Statement 2020*, published on 2 December 2020, did not report in detail on the budgetary or accounting treatment of every specific balance sheet measure, sometimes aggregating them together as a package of relief or into the financial flows of arm's-length Crown corporations included in the consolidated financial statements and budget documents under the modified equity method of accounting (Government of Canada, 2020[45]).

In the *Public Accounts Canada*, for the year ended 31 March 2020, loans and investments under the Business Credit Availability Program are captured as financial assets in the "loans, investments and advances" category (Government of Canada, 2020[46]). The IMPP "operates at no additional risk to the taxpayer, as the mortgages underlying the purchased securities are already insured" (Government of Canada, 2020[46]).

The government's monthly *Fiscal Monitor* indicates that the 25% incentive – loan forgiveness cost – of the Canada Emergency Business Account scheme is recorded as government expenses (Department of Finance Canada, 2020[47]).

The federal government's Canada Emergency Business Account web page details the scope of eligible businesses and the application process. It is aimed primarily at informing potential beneficiaries (Government of Canada, 2020[48]). The web page also displays information regarding the scheme's uptake, notably the total funds approved for Canada Emergency Business Account loans. This dashboard is updated on a weekly basis. As of 25 February 2021, total funds disbursed amounted to CAD 43.65 billion.

Crown corporations

Regarding the Business Credit Availability Program guarantee, Export Development Canada does not appear to publish uptake statistics on its website. The web page dedicated to the loan guarantee programme is primarily aimed at information for potential beneficiaries (Export Development Canada, 2020[49]).

Business Development Canada does not appear to publish uptake statistics of the SME Co-lending Program. The *Quarterly Report for the Second Quarter 2021* (ending 30 September 2020) contains a newly created business segment for COVID-19 related activities (Business Development Bank of Canada, 2020[50]). For the six-month period of the fiscal year 2021:

- Business Development Canada reported a net loss of CAD 251.7 million for COVID-19 related activities, and a consolidated net loss of CAD 6.6 million. This is mostly due to the fact that Business Development Canada recorded CAD 185.8 million of provision for expected credit losses, reflecting the significant economic uncertainty. The methodology to reach this number is not disclosed.
- Total financing acceptances and investment authorisations for COVID-19 initiatives totalled CAD 3.0 billion. The loan portfolio corresponding to these activities reached CAD 2.3 billion as of 30 September 2020.

Export Development Canada*'s Quarterly Financial Report*, covering the first nine months of 2020, indicated that Export Development Canada's position against the CAD 90 billon contingent liability limit was CAD 32.4 billion as of 30 September 2020 (Export Development Canada, 2020[51]). The report further reported that Business Credit Availability Program support over the period amounted to CAD 4.7 billion, including CAD 0.7 billion for the Business Credit Availability Program Guarantee scheme.

Parliamentary Budget Office

According to the Parliamentary Budget Office (PBO), when it comes to the government's emergency balance sheet measures, "public disclosures of expected gains or losses, and potential downside risks have been lacking" (Office of the Parliamentary Budget Officer, 2020[52]). PBO argues that the government and relevant Crown corporations do not disclose expected gains or losses of individual schemes or their associated downside risks.

PBO's website contains a cost estimates page about the government's COVID-19 Economic Response Plan (Office of the Parliamentary Budget Officer, 2020[53]):

- Regarding the Canada Emergency Business Account, the institution estimates the budgetary cost at CAD 9.3 billion for 2020-21.
- PBO published a legislative costing note on the Business Credit Availability Program guarantee scheme on 24 April 2020. In this note, while mentioning a number of sources of uncertainty, PBO initially estimated a net profit from the scheme of CAD 3 million in 2020-21. This budgetary impact represents the guarantee fees charged to financial institutions, minus potential default losses and administrative expenses. They were calculated using financial information provided in Export Development Canada's annual reports from the GFC of 2008-09. The note did not indicate sub-items, such as the estimated default cost. On 20 September 2020, PBO updated its costing of the scheme without publishing the costing methodology. According to this update, the budgetary balance would decrease by CAD 20 million in 2020-21 and by CAD 49 million in 2021-22.
- PBO published a legislative costing note on the SME Co-lending Program on 9 April 2020. In this note, PBO initially estimated a net profit from the scheme of CAD 389 million in 2020-21. This budgetary impact represents the net interest income from issuing these loans minus credit losses and administration expenses. On 29 September 2020, PBO updated its costing of the scheme according to which the budgetary balance would decrease by CAD 28 million in 2020-21 and by CAD 29 million in 2021-22.
- PBO published two legislative costing notes on the IMPP stating that the IMPP does not present any credit risk to the government because the assets underlying the purchased securities are already insured. The only fiscal impact would relate to the net income generated from insuring financial products and securitisation fees. As such, PBO's estimate is that the government will earn CAD 13 million in 2019-20 and 2 million in 2020-21.[15]

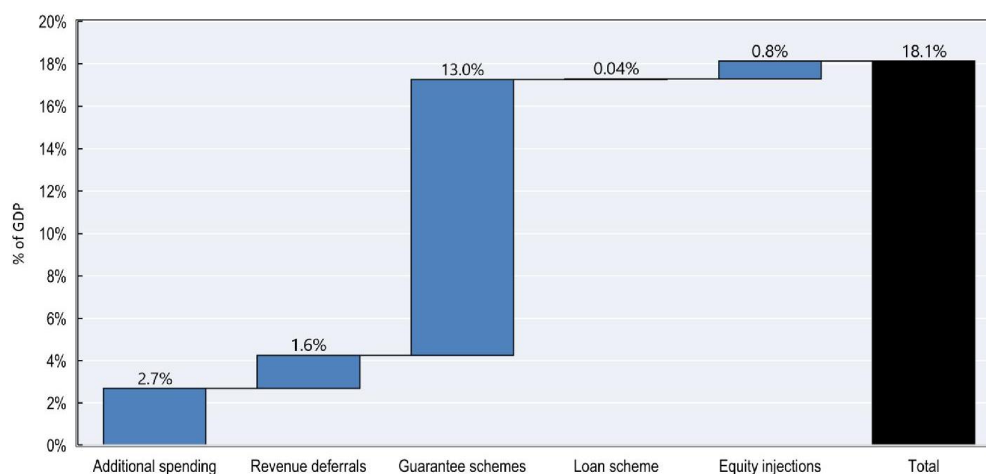
France

Emergency fiscal package in response to COVID-19

Overall description

From March to August 2020, the French government announced measures of about EUR 439.5 billion (18.1% of GDP) to muffle the economic impact of COVID-19 (Figure 7). EUR 65 billion (2.7% of GDP) are additional or accelerated budgetary expenditures, most of which are subsidies for wages of workers under the short-term work scheme (EUR 31 billion). France also implemented sizable revenue deferral measures amounting to around EUR 38 billion. EUR 336.5 billion (14% GDP) are balance sheet measures.

Figure 7. Size of emergency fiscal measures in France



Notes: The "equity injections" category regroups equity, quasi-equity and debt securities transactions such as shareholder advances. The "guarantee schemes" category includes a loan guarantee scheme and trade re-insurance and credit-insurance guarantee schemes. For consistency with the other case studies, measures related to international organisations, amounting to EUR 12 billion, and accelerated spending measures ("*remboursements anticipés de credits d'impôts*" and "*avances et compensations aux collectivités territoriales*"), worth EUR 17 billion, are excluded from this figure. Taken together, accelerated spending measures and measures related to international organisations explain the gap between the EUR 439.5 billion reported in this case study and the EUR 468 billion reported in the "Rapport économique social et financier".
Source: French Government (2020[54]).

Loan guarantee scheme (*prêts garantis par l'État*)

The government allocated EUR 300 billion to this loan guarantee scheme. Under this scheme, enterprises – no matter their legal form or their size – could subscribe loans from the banking sector until the end of June 2021 (from December 2020 initially). The state guarantee ranged from 70% to 90% depending on the size of the enterprise contracting a loan.

Loan scheme

The government announced EUR 0.925 billion to increase the lending capacity of the Economic and Social Development Fund. This fund, worth EUR 1 billion and managed by the French Treasury, directly provided loans to fragile companies or companies facing economic hardship, especially medium-sized companies (between 250 and 4 900 employees and with less than EUR 1.5 billion in revenue). This fund was activated by the CODEFI (Regional Committee for the Examination of Problems of Business Financing).

Capital injections (*participations financières de l'État*)

The government also announced EUR 20 billion of support to "strategic economic actors", notably in the aeronautic sector. This support was administered by the State Shareholdings Agency, which manages the country's state-owned enterprises and the state's other holdings.

Legal basis and institutional responsibilities for the balance sheet measures

The government's main emergency balance sheet measures were contained in the first two supplementary budget bills of March and April 2020. The loan guarantee scheme was established by means of the First Supplementary Budget Bill of March 2020. A decree provided the specifications of this scheme, including the scope of companies and loans eligible, the scope of the guarantee, and the guarantee premiums (French Government, 2020[55]). The Second Supplementary Budget Bill of April 2020 engaged EUR 20 billion of capital injection to support "strategic economic actors" and EUR 0.925 billion to increase the lending power of the Economic and Social Development Fund.

Provisions in the First Supplementary Budget Bill of March 2020 ensured democratic oversight of the loan guarantee scheme. Article 6 of the bill mandated the creation of a committee in charge of monitoring the implementation and evaluation of measures to provide financial support to enterprises affected by the COVID-19 pandemic. The chair is appointed by the Prime Minister. It is composed of members of the National Assembly, the Senate, the Court of Auditors and representatives of the state, French regions, business federations, the Association of French Mayors and the Assembly of French Departments. This committee reports to the Prime Minister. The documents communicated by the government to the Monitoring Committee are forwarded to the Finance Committees of the National Assembly and the Senate. Finally, the committee will draw up a public report one year after the promulgation of the 2020 First Supplementary Budget Bill. The committee receives loan requests statistics regarding emergency loans and advances as well as the loan guarantee scheme.

Transparency and risk analysis

France prepares its budget and budget execution reports on a cash and commitment basis, at the budgetary central government level. There is at least one supplementary budget per year. The in-year budget outturns are published on a monthly basis. France also publishes accrual year-end financial statements (OECD/IFAC, 2017[12]). A number of fiscal risks are managed by the Ministry of the Economy, Finance and the Recovery and other stakeholders, although they are not systematically measured and disclosed (OECD, 2019[11]).

Loan guarantee scheme (*prêts garantis par l'État*)

Consistent with the Second Supplementary Budget Bill of 25 April 2020, the French government, in partnership with the public investment bank (Bpifrance), the French central bank and the French banking federation, created a dashboard monitoring the uptake of the loan guarantee scheme. This dashboard is updated on a weekly basis and dissects the uptake by sector, region, company size and credit rating (Ministry of the Economy, Finance and the Recovery, 2020[56]). This dashboard is published on the Ministry of the Economy, Finance and the Recovery's website, but is produced by the French central bank. As of 12 February 2021, loans under this scheme amounted to EUR 133.4 billion.

The draft 2021 Budget Bill provisions EUR 1.3 billion if state guarantees are called under this scheme (French Government, 2020[57]). An appendix to this document, the *Economic, Social and Financial Report*, indicates that this amount is derived from French central bank's forecasted multi-annual loss of 4.6% of outstanding guaranteed loans (French Government, 2020[54]). The costing methodology is not publicly reported. The *Economic, Social and Financial Report* further indicates that the impact on the budget

balance will be recorded in the national accounts, when guarantees are called rather than when guarantees are provided. This applies for both guarantee premiums and losses.

Loan scheme

Under the Loans and Advances to Individuals or Private Organisations financial assistance account, the Loans for Economic and Social Development Programme was affected by the 2020 Supplementary Budget Laws. According to the French Ministry of the Economy, Finance and the Recovery, financial assistance accounts "trace loans and advances granted by the state (Service de la fonction financière et comptable de l'État, 2020[58]). A separate account is opened for each debtor or category of debtors. The appropriations in these accounts are restrictive". The Loans for Economic and Social Development Programme finances loans from the Economic and Social Development Fund granted by the state to companies to support their financial and commercial restructuring (French Government, 2020[59]). Before the COVID-19 crisis, the fund lent to medium-sized enterprises and mid-cap companies. As a consequence of the crisis, a new action was established under the programme, targeting small and micro enterprises (less than 50 employees).

Capital injections (*participations financières de l'État*)

The French government created a budgetary mission dedicated to COVID-19 emergency spending. This mission contains one programme, called "exceptional reinforcement of the state's financial holdings", which funds the special purposes account for the financial holdings of the state. As such, this special purposes account is included in the general budget. According to the French Ministry of the Economy, Finance and the Recovery, "special purpose accounts trace budgetary operations financed by particular revenues which are, by their nature, directly related to the expenditure concerned. The appropriations in these accounts are restrictive" (Service de la fonction financière et comptable de l'État, 2020[58]).

The July 2020 Budget Outturn indicates spending of about EUR 2 billion under the special purposes account for the financial holdings of the state, EUR 1.9 billion of which was provided to Bpifrance. In August and September 2020, the general budget respectively provided EUR 3.15 billion and EUR 1.1 billion to exceptionally reinforce the state's financial holdings in order to support Air France-KLM and the aeronautics sector. In turn, the special purposes account indicates spending of EUR 0.22 billion in August 2020 and EUR 1.05 billion in September 2020.

An appendix to the draft 2021 Budget Bill, the *Report Relative to the State as a Shareholder*, presents the mission and investment doctrine of the State Shareholdings Agency (French Government, 2020[60]). The document details the impact of the COVID-19 crisis on its portfolio and the performance of its investments. It also discusses the plans made to counter the crisis and support state-owned companies. For example, as a "strategic economic actor", Air-France KLM received a EUR 3 billion shareholder loan.[16]

Another appendix to the draft 2021 Budget Bill, the *Annual Performance Projects Relative to the Financial Holdings of the State*, indicates that EUR 11 billion will be carried forward to 2021 from the EUR 20 billion of credits that were opened in the general budget by means of the Second Supplementary Budget Law and that weren't used in 2020. Some performance indicators were put on hold while pandemic-related uncertainty remained. Finally, national security issues prevented the disclosure of future uses of the funds.

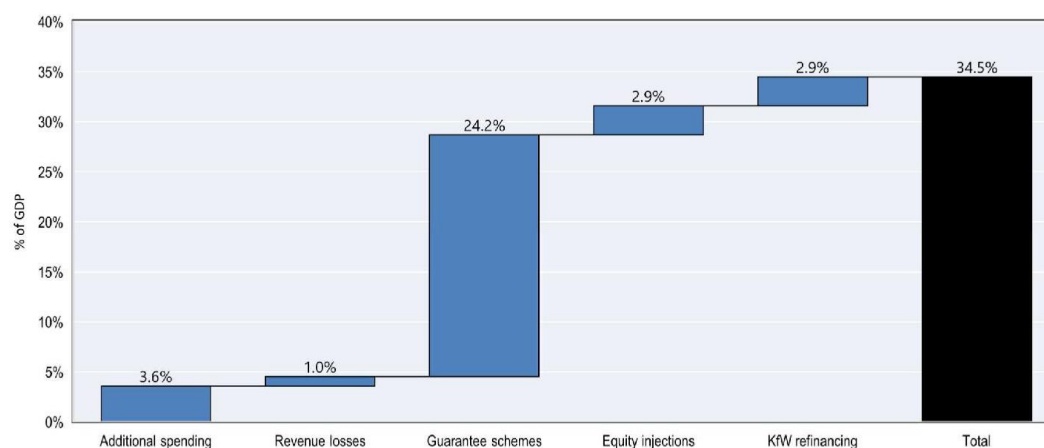
Germany

Emergency fiscal package in response to COVID-19

Overall description

The government announced an initial support package including additional spending and balance sheet-based measures of 34.5% of GDP in March 2020 (Figure 8). The government package at the federal level in March 2020 was backed by a supplementary budget of EUR 156 billion (4.5% of GDP) to finance additional spending (EUR 122.5 billion) and to cover loss of revenues (EUR 33.5 billion). This package included health measures covering the procurement of protective gear, support to hospitals and funding for vaccine research. To protect jobs, short-term work was extended. Households were supported by extended unemployment benefits and eased access to social benefits. To provide liquidity to firms, measures included a hardship fund for self-employed and small businesses and tax deferrals.

Figure 8. Size of emergency fiscal measures in Germany



Note: Guarantee schemes cover the Economic Stabilisation Fund and the increase to the guarantee framework for the national promotional bank by the federal government and the *Länder*.
Source: German Federal Ministry of Finance (2020[61]).

Government guarantees and the Economic Stabilisation Fund

The measures further included new government guarantees with a total of EUR 833 billion (24.2% of GDP), including increasing the guarantee framework for the national promotional bank (KfW) and guarantees under the newly established Economic Stabilisation Fund.

In particular, with the first supplementary budget, the existing government guarantee framework of EUR 465.2 billion for KfW was increased by EUR 356.5 billion, backing the new national promotional bank special programme. This was supplemented by a further EUR 76.8 billion from the *Länder*. In addition, the volume for back-to-back guarantees by the federal government and the *Länder* provided to guarantee banks was increased.

For larger enterprises, a supplementary scheme, the Economic Stabilisation Fund, was established. The goal of the fund was to protect economic and industrial interests, in particular concerning technological sovereignty, security of supply, critical infrastructures and the job market. The Economic Stabilisation Fund was authorised to provide EUR 400 billion of guarantees for corporate liabilities. Moreover, the fund was endowed with a credit authorisation of EUR 100 billion to KfW for refinancing their loans, and

EUR 100 billion for government equity injections/recapitalisations (German Federal Ministry of Finance, 2020[62]).

Government guarantees for the national promotional bank

KfW set up a special programme, running until the end of June 2021, which included loosened conditions for several of its own existing loan schemes for enterprises and start-ups by raising the level of taking over risk for operating loans and extending these instruments to larger enterprises with repayments of up to six years. KfW offered streamlined loan application procedures and simplified risk assessments. SMEs applying for a loan received a government guarantee of 90% and large companies 80%, respectively. The interest rate under the bank's special programme was reduced to between 1% to 1.46% for SMEs and to between 2% and 2.12% for larger enterprises – depending on the risk category (German Federal Government, 2020[63]). Enterprises could apply for loans of up to 25% of total annual revenue or up to an amount of twice the annual wage sum and up to EUR 100 million. Moreover, an additional EUR 2 billion was made available to promote venture capital and a new Instant Loan Programme for SMEs was introduced. The granting of loans by the national promotional bank implied restrictions on dividend payments and management compensation (KfW, 2020[64]).

Economic Stabilisation Fund

Enterprises were eligible for Economic Stabilisation Fund support if they fulfil two out of three requirements: 1) a balance sheet total of EUR 43 million or more; 2) turnover of EUR 50 million or more; 3) more than 249 employees. Exemptions applied to enterprises considered to be of critical importance and for certain start-ups.

Criteria applied to decisions on the Economic Stabilisation Fund support measures included the economic importance of the company; urgency of support; effects on the labour market and competition; and the principle of the most efficient use of the fund's resources. Economic Stabilisation Fund support was conditional on the financial health of the company before COVID-19 and on a business perspective to continue after COVID-19. Further conditionality included restrictions on board remuneration, dividend payments and share repurchases. In case of large support, instruments and conditions were decided on a case-by-case basis (German Federal Ministry for Economic Affairs and Energy, 2020[65]).[17]

The Economic Stabilisation Fund instruments can be granted until the end of 2021. For loan guarantees provided up to five years, a minimum premium is charged of 0.5-2.0%. In the case of silent partnerships (IFRS) up to EUR 100 million, the profit participation is 4% in the first year and increases to 9.5% in the eighth to tenth year.

Legal basis and institutional responsibilities for the balance sheet measures

On 25 March 2020, under urgency, the Federal Parliament approved the law on the first supplementary budget 2020, including the decision to increase the federal guarantees for KfW. At the same time, the Federal Parliament approved the Economic Stabilisation Fund Act that provided for a framework of competences and defined principles for the fund's management (Federal Parliament, 2020[66]).

The governance and decision making of the Economic Stabilisation Fund is as follows. While for guarantee cases with a volume of up to EUR 100 million, the processing of applications and decision thereof was delegated to KfW, the decisions about guarantees of EUR 100-500 million and recapitalisations up to EUR 200 million were decided by the Federal Ministry of Economic Affairs and Energy (BMWi) and the Federal Ministry of Finance (BMF). Decisions on larger support measures were taken by an inter-ministerial committee. The Economic Stabilisation Fund Committee consisted of representatives of the Federal Chancellery, the BMWi, the BMF and further ministries. The Economic Stabilisation Fund Committee could

appoint experts regarding equity holdings. The management of the temporary participations and the supervision of the stabilising measures was primarily the responsibility of the BMF.

The operational management of the Economic Stabilisation Fund was commissioned to the Finance Agency (Finanzagentur), which was set up during the GFC to manage the Financial Market Stabilisation Fund (SoFFin). The Finance Agency handled the day-to-day business of the Economic Stabilisation Fund, including risk controlling and running reporting/information systems (German Federal Government, 2020[67]).

Transparency and risk analysis

Germany prepares the federal budget and the financial report on a cash and commitment basis. In light of COVID-19, two supplementary budget acts were published in March and July 2020. Concerning reporting, in addition to the budget outturn, the year-end financial report includes a supplementary balance sheet, a statement of changes in net assets, and disclosures in which the cash balances at bank, provisions, financial assets and contingent liabilities are reported (albeit not exhaustively). The BMF prepares monthly reports informing about the development of public finances. The Federal Court of Audit undertakes the audit of the year-end financial report (OECD/IFAC, 2017[12]). While there is a basic framework for fiscal risk management in place, no fiscal risk report is published (OECD, 2019[11]).

Government guarantees for the national promotional bank

Budget documentation

Payments under guarantees within the maximum amount authorised by the federal budget law are accounted for under Chapter 3208 of the federal budget. However due to a high probability of guarantee calls related to the corona-related special programme of the national promotional bank, it was necessary to appropriate future expenditure up to an amount of EUR 10 billion under line item 6002 671 04. Assumptions underpinning this information, such as the probability of guarantees being called or potential fraud, was not published. The BMF’s monthly reporting does not cover guarantees for KfW.

Reporting on dedicated web pages

KfW set up a web page regularly reporting on the take-up of the guaranteed loan programmes, including information on the number and volume of COVID-19 loans and its use across regions. As of 21 January 2021, more than 113 000 applications for a guaranteed loan had been submitted and EUR 46.7 billion in COVID-related commitments had been granted (KfW, 2020[64]). The BMF also regularly reports on the take-up of COVID-19 related measures. In this context, it was reported that as of December 2020, in addition to KfW’s and Economic Stabilisation Fund’s support, guarantees by guarantee banks amounted to EUR 4.1 billion.

Economic Stabilisation Fund

Budget documentation

In the documents accompanying the parliamentary debate in March 2020, the Budget Committee of the Federal Parliament assessed the bill on the Economic Stabilisation Fund positively. The bill argued that the financial burden for the federal budget was likely to remain limited as the Economic Stabilisation Fund could become shareholder and required premia for guarantees. Therefore, no clear figure was indicated. As to the administrative costs of the fund, it was argued that there were implementation costs in the Finance Agency and in the federal ministries involved in decision making. EUR 15.4 million to cover administrative costs were allocated at this early stage (Federal Parliament, 2020[68]).

The BMF monthly report informs about fiscal developments, federal borrowing and debt trends. It presents information on loans for recapitalisation measures and loans for KfW refinancing pursuant to the Economic Stabilisation Fund Act, including information on interest receipts and payments (German Federal Ministry of Finance, 2020[69]).

The Economic Stabilisation Fund was described in the 2021 financial plan (and medium-term expenditure framework) under the subsection "special funds", including information on its maximum volume, its conditionalities and the take-up as of September 2020. It was argued that the use of the fund in 2020 was expected to remain limited.

The BMF is required by law to publish the annual accounts for the Economic Stabilisation Fund at the end of the year as part of the federal budget accounts and the accounts of assets and liabilities (Haushalts- und Vermögensrechnung).

Reporting on dedicated web pages

The Finance Agency set up a web page to report on the measures taken under the Economic Stabilisation Fund and its consequences for federal funding requirements. As of 24 February 2021, there were no guarantees provided and KfW demands for refinancing loans under the Economic Stabilisation Fund amounted to EUR 38 billion. There was little call on equity injections for recapitalisation under the fund (EUR 8.4 billion, 11 cases including EUR 5.8 billion for Lufthansa AG and EUR 1.2 for TUI AG).[18]

Parliamentary oversight

According to the Economic Stabilisation Fund Act, the Financing Committee (Bundesfinanzierungsgremium) executes the parliamentary control over the fund's activities. This committee is continuously informed by the BMF. It may summon representatives of the Economic Stabilisation Fund Committee, the Finance Agency and of companies receiving support from the fund. The Budget Committee and the Finance Committee of the Federal Parliament are to be informed regularly. In its opinion on the second supplementary budget, the Federal Court of Audit recommended a monthly reporting on the COVID-19 measures, including information on take-up within the different schemes, to strengthen parliamentary oversight (Federal Court of Audit, 2020[70]).

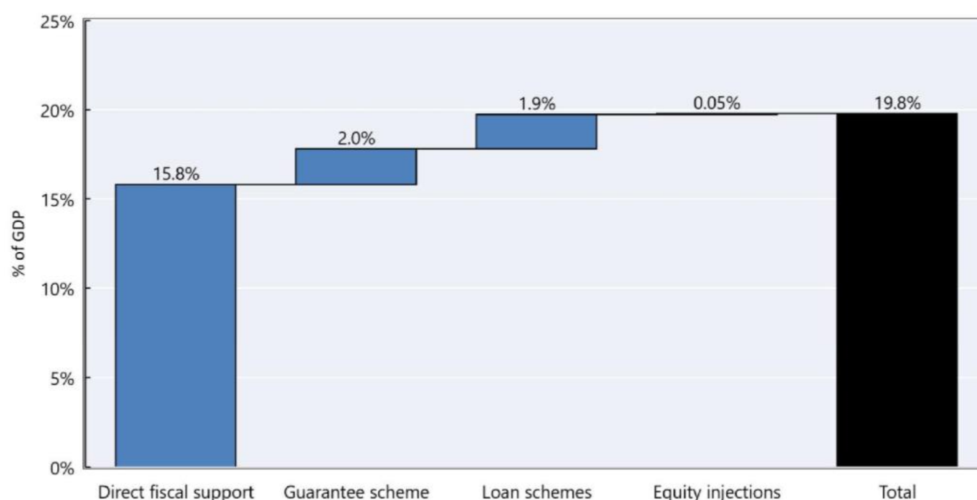
New Zealand

Emergency fiscal package in response to COVID-19

Overall description

From March to May 2020, the New Zealand government announced NZD 62.1 billion (19.8% of GDP) of emergency fiscal measures (Figure 9). This package comprised around NZD 49.6 billion (15.8% of GDP) in additional spending and no revenue deferral measures. The government also introduced a number of measures with no direct impact on the fiscal balance totalling NZD 12.5 billion (4% of GDP), including a guarantee scheme and loan programme for small businesses as further detailed below (New Zealand Government, 2020[71]).

Figure 9. Size of emergency fiscal measures in New Zealand



Note: The loan schemes category is composed of the Small Business Cashflow Scheme and loans to Air New Zealand. The equity injections category includes equity injections in New Zealand Post Limited and New Zealand Airways.
Source: New Zealand Treasury (2020[72]).

Business Finance Guarantee Scheme

The Business Finance Guarantee Scheme provides a government guarantee of 80% on the loans issued under the scheme, with an interest rate determined by the lender. This scheme was delivered in two phases. In the first phase, which ended on 20 August 2020, the ceiling for the loans was set at NZD 0.5 million and the maximum term at three years. In the second phase, under certain conditions (turnover and type of lender), loans can go up to NZD 5 million for a maximum term of five years. The scheme ended on 31 June 2021. Under the scheme, the total amount of loans can reach NZD 6.25 billion (2% of GDP), limiting the state's exposure to losses to NZD 5 billion.

Small Business Cashflow Scheme

The Small Business Cashflow Scheme provides one-off loans of NZD 10 000 per business plus NZD 1 800 per full-time employee up to 50 employees, bringing individual loans to a maximum amount of NZD 100 000 with a term of 5 years. Repayments are not required for the first two years. The annual interest rate on the loans is 3%. If the loan is fully repaid within two years, no interest is charged. Otherwise interest is charged

for the entire term of the loan. The scheme was estimated at NZD 5.2 billion (1.9% of GDP). Applications opened on 12 May 2020 and will close on 31 December 2023.

Legal basis and institutional responsibilities for the balance sheet measures

The government's implementation of its budgetary response was through existing powers under the Public Finance Act, with the government enacting on 23 March an Imprest Supply Bill including provisions to authorise the government to incur expenses in response to the effects of COVID-19. Additional legislation was adopted to deliver the support measures, for example the Amended and Restated Crown Deed of Indemnity in relation to the Business Finance Guarantee Scheme, which set out the terms for granting indemnities to lenders participating in the Business Finance Guarantee Scheme; or the COVID-19 Response (Taxation and Other Regulatory Urgent Measures) Act 2020*,* which authorised the government to make payments under the Small Business Cashflow Scheme.

As part of their mandate in overseeing government spending, the Finance and Expenditure Committee of the parliament and the Office of the Controller and Auditor-General oversee spending related to balance sheet measures.

Transparency and risk analysis

New Zealand has a system of accrual budgeting and accounting, all based on the International Public Sector Accounting Standards (IPSAS) and covering the public entities controlled by the central government (OECD/IFAC, 2017[12]). The Budget, *Budget Economic and Fiscal Update, Pre-election Economic and Fiscal Update* and the *Half Year Economic and Fiscal Update* set out the Crown's economic and fiscal outlook, its economic plan, and budget priorities. In addition, the government typically introduces three appropriations bills and two Imprest supply bills each year.[19] Concerning reporting, the government publishes monthly and year-end financial statements for the central government.

Legislation requires that fiscal risks facing the Crown be both managed "prudently" and "disclosed to the fullest extent possible". To achieve these objectives, New Zealand has established a comprehensive and detailed framework, including guidelines for preventing and mitigating fiscal risks. For those risks that cannot be prevented or mitigated, the government's approach consists of maintaining debt at prudent levels and holding a healthy level of net worth, to increase the Crown's resilience to shocks (OECD, 2020[2]).

Business Finance Guarantee Scheme

In the *Budget Economic and Fiscal Updat*e, published on 14 May 2020, the Treasury initially forecasted NZD 0.5 billion of operating expenditures related to the scheme for the period 2020-24, but does not detail the assumptions underpinning this figure (New Zealand Treasury, 2020[73]).

In the *Pre-election Economic and Fiscal Update*, published on 16 September 2020, the Business Finance Guarantee Scheme is listed in the Statement of Specific Fiscal Risks as a "policy change risk" that could affect government expenses (New Zealand Treasury, 2020[72]).

The *Financial Statements of the Government of New Zealand* for the year ended 30 June 2020, published on 24 November 2020, shows only NZD 20 million of operating expenses as a yearly expenditure for the scheme (New Zealand Government, 2020[74]). The Business Finance Guarantee Scheme is considered as a financial guarantee contract, with expected indemnities reported as "other provisions" on the balance sheet. The disclosures to the financial statements explain that this provision is "the best estimate of the expenditure required to settle the obligation. Liabilities and provisions to be settled beyond 12 months are recorded at the present value of their estimated future cash outflows. However, assumptions underpinning the estimates are not disclosed.

The Treasury's web page dedicated to this scheme details the scope of eligible businesses and key features of guaranteed loans. The Treasury also publishes a dashboard, updated every two weeks, which dissects the uptake by industry and region and total approved exposure and total number of borrowers (New Zealand Treasury, 2020[75]). As of 18 February 2021, total approved exposure amounted to NZD 1.42 billion, meaning that NZD 1.78 billion worth of loans was issued under the Business Finance Guarantee Scheme.

Small Business Cashflow Scheme

The *Pre-election Economic and Fiscal Update* forecasts NZD 0.5 billion in 2021 of net capital expenditures in relation to the scheme, with NZD 0.1 billion, NZD 0.4 billion and NZD 0.5 billion to be paid back in 2022, 2023 and 2024, respectively (New Zealand Treasury, 2020[72]).

In the year-end financial statements, the Small Business Cashflow Scheme is measured at fair value. As such, NZD 1.423 billion are recorded as capital expenses, corresponding to the total amount lent by 30 June 2020. NZD 0.686 million are recorded as operating expenses, corresponding to the expected write down at 48%, down from 66% in the previously published interim financial statements (New Zealand Government, 2020[76]).

The estimates and assumptions underpinning the values reported in the balance sheet are detailed in the disclosures to the financial statements, including a loan interest rate of 3%, a default rate of 29.7% and a discount rate of 15%.

The Inland Revenue, the state's revenue agency that administers the Small Business Cashflow Scheme, does not publish the scheme's uptake statistics on a regular basis, but declared on 18 December 2020 that loans amounting to NZD 1.6 billion were made under the scheme (New Zealand Government, 2020[77]).

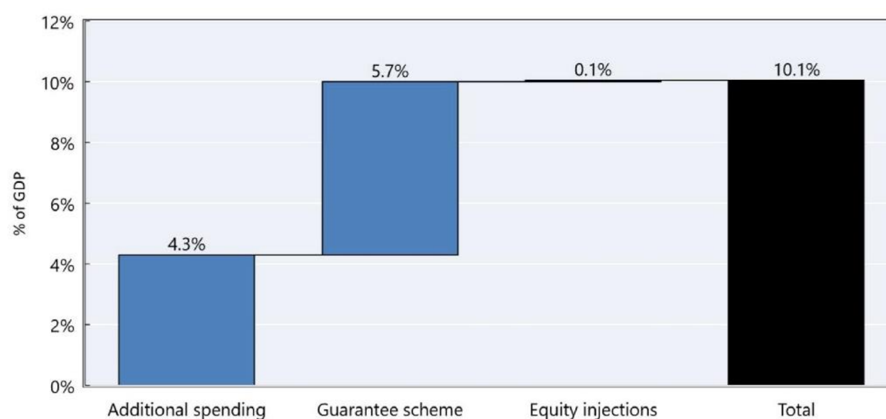
Switzerland

Emergency fiscal package in response to COVID-19

Overall description

From March to August 2020, the Federal Council announced measures of more than CHF 73 billion (10.1% of GDP) to cushion the economic consequences of COVID-19 (Figure 10). While CHF 31.3 billion (4.3% of GDP) were additional on-budget expenditures, CHF 41.4 billion (5.7% of GDP) were government guarantees to improve access to liquidity for enterprises. Key elements of the additional public spending included funding for the extended short-term work scheme, compensation for loss of earnings for the self-employed, support to the health sector and sectoral support. Switzerland used temporary interest-free deferral of tax and social security contribution payments (Swiss Federal Department of Finance, 2020[78]).

Figure 10. Size of emergency fiscal measures in Switzerland



Source: Swiss Federal Department of Finance (2020[78]).

COVID-19 guarantee scheme

Separate from measures that directly affect the fiscal balance, the Federal Budget guarantees loans for SMEs. Specifically, the Federal Council implemented a COVID-19 guarantee scheme of CHF 40 billion to provide liquidity and avoid insolvency of SMEs affected by the COVID-19 pandemic. Besides, the Federal Council introduced a CHF 1.3 billion government guarantee for loans to support airlines and, in co-operation with the cantons, a CHF 100 million guarantee programme for start-ups. An equity injection of CHF 400 million was granted for air traffic control businesses and additional loans were granted for professional organisations in culture and sport (CHF 50 million each).

Within the guarantee scheme of CHF 40 billion, accessible from 26 March until 31 July 2020, enterprises could apply for loans of up to 10% of annual sales and a maximum of CHF 20 million. Amounts of up to CHF 0.5 million were paid out immediately and interest free (for one year) by commercial banks and fully secured by the government via the four existing guarantee organisations. Amounts in excess of this sum were secured by the government to 85% at an interest rate of 0.5% and required an examination by the bank and the guarantee organisation. The use of guaranteed loans was subject to conditionality, including a ban on dividend payments and on the use of guaranteed loans to refinance existing loans (Swiss Federal Council, 2020[79]). Repayment had to take place within eight years or within ten years in cases of economic hardship.

Legal basis for the balance sheet measures

By means of emergency ordinance, the Federal Council activated the guarantees for COVID-19 loans as of 26 March 2020. The Finance Delegation of the Federal Parliament approved the funding commitments in an urgency procedure for a supplementary budget for 2020 in April. At the same time, the Finance Delegation decided that the Swiss Federal Audit Office should be involved in monitoring the implementation of the COVID-19 related measures and that abuse within the guarantee scheme is to be prosecuted (Box 3). In an extraordinary session on 4-6 May 2020, the Swiss Parliament approved the supplementary budget of CHF 56 billion, including the guarantee funding commitments. An explanatory note supplemented the "Joint Guarantee Ordinance" (Swiss Federal Department of Finance, 2020[80]).

The Federal Council must incorporate emergency ordinances into ordinary law. In light of the importance of the COVID-19 guarantee scheme, the Federal Council proposed a separate law. On 1 July 2020, the Federal Council initiated a public consultation on the Federal Act on COVID-19 Loans with Joint Guarantee, which demonstrated strong stakeholder support. This bill regulates the rights and obligations of the four guarantee organisations, in particular in cases where the banks call the guarantee. The bill specifies instruments to combat abuse. The Swiss Parliament approved the bill on 18 December 2020 and put it into force immediately (Swiss Parliament, 2020[81]).

Transparency and risk analysis

The federal government prepares its budget and year-end financial report on an accrual basis, in accordance with the requirements of IPSAS. The year-end financial report is submitted to the Federal Audit Office (OECD/IFAC, 2017[12]). The Federal Department of Finance publishes the annual budget, supplementary budgets, two brief in-year extrapolations on the budget outturn and a financial statement report. In light of COVID-19, two supplementary budgets were published. The draft Budget with an integrated financial plan for four years is presented in August. A central risk management co-ordination unit is located in the Federal Department of Finance (Swiss Federal Council, 2020[82]). However, no fiscal risks report is published (OECD, 2019[11]).

Analysis and reporting in dedicated government reports

The dispatch of the Federal Council for the Federal Act on COVID-19 Loans with Joint Guarantee, published in September 2020, discussed the rationale of the guarantee scheme, the issues related to loan defaults, and the consequences of the guarantee scheme in terms of budget and personnel.

The report explained that the government had to raise the level of guaranteeing loan defaults to up to 100% to support the guarantee organisations in such an exceptional situation. Easing the access to guaranteed loans and covering administrative costs were considered crucial for providing quick liquidity. The bill also clarified the reporting requirements for the four existing guarantee organisations *vis-à-vis* the Federal Council in terms of loan volumes and contingent liabilities. Referring to the government web page that provides an overview of the scheme (see below), the dispatch informed that 41% of the funding commitments had been used by mid-August (CHF 16.4 billion). The dispatch informed that by mid-August, there were few defaults, i.e. 167 cases, with a total amount of losses of CHF 13.7 million.

The dispatch stated that estimating loan default probabilities and administrative costs of the guarantee organisations are surrounded by high uncertainty. Under the assumption that 10-20% of loans default, the government estimated to cover around CHF 1.5-3 billion for loss of guarantees over the next five to ten years. Although the distribution of losses over time strongly depends on assumptions (e.g. the course of the epidemic, economic recovery), it was assumed that a high proportion of loan defaults would occur in the first two years. Therefore, the government estimated to cover high guarantee losses until 2022 (estimated at up to CHF 1.3 billion per year) (Swiss Federal Department of Finance, 2020[83]).

Analysis and reporting in budgetary documents

In March 2020, in the amendment to the supplementary budget for 2020, the Federal Council proposed a contingent funding commitment of CHF 20 billion and provisioning CHF 1 billion for Covid-19 loan losses. In this document, the Federal Council argued that the amount of CHF 1 billion gave a certain security margin. At the same time, it was also stated that the default rate was difficult to estimate and surrounded by high uncertainty (Swiss Federal Council, 2020[84]).

In the 2021 Budget, the Federal Council provisioned CHF 1 billion for COVID-19 bridge loan losses and additional spending for the guarantee organisations under the rubric of the Federal Department for Economic Affairs, Education and Research. In the budget explanations, the high uncertainty was highlighted. It was argued that, under the assumption of a 15% loss rate for around CHF 17 billion guaranteed loans, total guarantee losses of around CHF 2.6 billion would arise over the entire term. As it was assumed that most of the losses would occur in the first two years, CHF 1 billion for losses and administrative costs were foreseen in 2021. In the corresponding financial plan for 2022-24, the expected loan losses were estimated to be CHF 400 billion, CHF 250 billion and CHF 130 billion, respectively (Federal Finance Administration, 2020[85]).

Analysis and reporting by the Swiss Federal Audit Office

As required by parliament, the Swiss Federal Audit Office closely followed the COVID-19 related measures. By December 2020, the Swiss Federal Audit Office published four reports on the implementation of the COVID-19 measures, with a focus on uptake and fraud detection within the short-term work scheme, the liquidity support to households and enterprises, and the support to selected sectors. By 15 October, the Swiss Federal Audit Office examined almost all granted loans and reported more than 4 600 cases of potential abuse covering a granted volume of CHF 1.2 billion to be further clarified by the State Secretariat for Economic Affairs (Swiss Federal Audit Office, 2020[86]).

Box 3. Anti-abuse measures within the COVID-19 guarantee scheme

Risks of abuse include incorrect turnover information, companies that are in bankruptcy and inheritance proceedings or in liquidation at the time of application, multiple applications for COVID-19 loans to different banks, and violation of the prohibition on dividend payments. On 15 May 2020, an audit concept to combat abuse was adopted by the State Secretariat for Economic Affairs. Key elements are:

- The electronic application process checks are linked to the official register of companies.
- Banks identify companies in accordance with the Federal Act on Combating Money Laundering and Terrorist Financing.
- The central institution set up by the guarantee organisations examines all documents received from the banks regarding completeness and formal compliance with the eligibility requirements.
- The guarantee organisations are responsible for initiating criminal and civil law proceedings at the public prosecutor's offices against the company in question. They report regularly to the State Secretariat for Economic Affairs.
- The Swiss Federal Audit Office carries out a systematic review of all guarantees. By analysing and linking the data on the guarantees with tax data and other data records, the accuracy of company turnover for determining the loan limit and ensuring compliance with the dividend prohibition are controlled. The Swiss Federal Audit Office also examines whether the company is in inheritance proceedings. Anomalies are notified to the guarantee organisations via the State Secretariat for Economic Affairs.

Source: State Secretariat for Economic Affairs (2020[87]).

Analysis and reporting on dedicated government web pages

The Federal Council set up a dedicated web page (Covid19.Easygov) that regularly updates information on the number and volume of COVID-19 bridging loans. This web page provides analysis on the loans, including information on use by sectors and regions, abuse, repayment, and losses on guarantees. For instance, in total, more than 137 000 loans with a volume of CHF 16.9 billion were granted. On 24 February 2021, there were 1 403 cases of guarantee losses with a volume of CHF 112 million.[20]

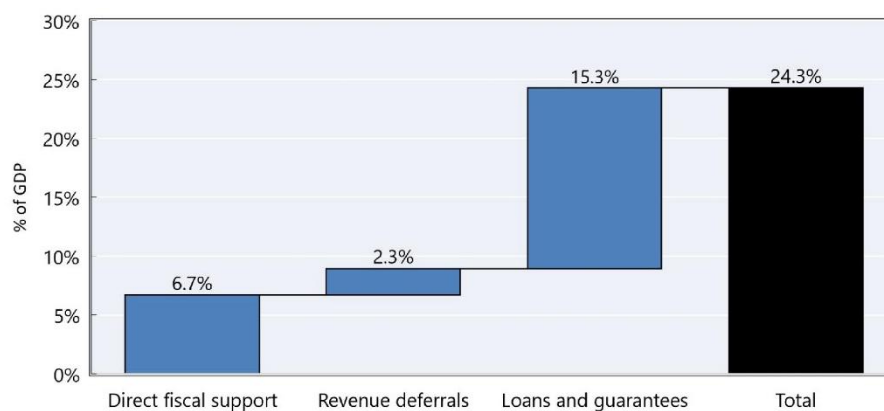
United Kingdom

Emergency fiscal package in response to COVID-19

Overall description

From March to early July 2020, the UK government announced GBP 548.7 billion (24.3% of GDP) worth of measures in order to counter the COVID-19 crisis (Figure 11). Direct fiscal support was estimated at around GBP 158 billion (6.7% of GDP) (HM Treasury, 2020[88]), with two particularly sizable employment support measures totalling GBP 63 billion. HM Treasury also estimated revenue deferrals measures, notably value-added tax and income tax self-assessment deferrals, at GBP 50 billion (2.3% of GDP). The Chancellor of the Exchequer also announced balance sheet measures totalling GBP 340 billion of guarantees (15.3% of GDP), which are further described below (Office for Budget Responsibility, 2020[89]).

Figure 11. Size of emergency fiscal measures in the United Kingdom



Note: The "Loan guarantee schemes" category is composed of the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme, the Bounce Back Loan Scheme, the Future Fund, the COVID-19 Corporate Finance Facility and the Trade Credit Reinsurance Scheme.
Source: Office for Budget Responsibility (2020[89]).

Bounce Back Loan Scheme, Coronavirus Business Interruption Loan Scheme and Coronavirus Large Business Interruption Loan Scheme

The Coronavirus Business Interruption Loan Scheme and the Coronavirus Large Business Interruption Loan Scheme are two guarantee schemes aimed at businesses affected by the pandemic, the latter being aimed at larger corporations. They both cover loans, but also evolving credit facilities (including overdrafts), invoice finance and asset finance. The government guarantees 80% of the finance to the lender, with a range of different borrowing terms. In the case of the Coronavirus Business Interruption Loan Scheme, it also pays interest and fees on the loan for the first 12 months. In addition, the Bounce Back Loan Scheme banks provide short-term, 100% state-guaranteed, interest-free loans to any businesses affected by the pandemic. The closing date for applications to these schemes was extended to 31 March 2021.

Future Fund

The Future Fund issues government loans between GBP 125 000 and GBP 5 million to UK-based innovative companies. This funding must be at least equally matched from private investors in the past five years. If companies are unable to repay the funding, government loans will be converted into equity. The scheme was open until 31 January 2021.

COVID-19 Corporate Finance Facility

The COVID-19 Corporate Finance Facility is a lending facility under which the Bank of England purchases short-term corporate debt securities (commonly called “commercial paper”), thereby allowing large companies to raise short-term working capital and remedy to disruptions in cash flows caused by the pandemic. The total envelope of this HM Treasury scheme is uncapped. Applications from counterparties and issuers looking to become eligible closed on 31 December 2020.

Legal basis and institutional responsibilities for the balance sheet measures

The measures adopted by the government in response to the pandemic have been announced in a sequenced manner, as the crisis unfolds. The government’s initial emergency response to the crisis was funded through the Budget on 11 March 2020. In addition, the Contingencies Fund Act 2020 adopted shortly after the budget on 23 March exceptionally increased the budget’s contingencies fund from 2% in the preceding year to 50% to fund new emergency and economic support measures.

On 17 March 2020, the Chancellor of the Exchequer first announced a notional envelope of GBP 330 billion dedicated to guarantee schemes, which initially comprised only the COVID-19 Corporate Finance Facility and the Coronavirus Business Interruption Loan Scheme. The Future Fund, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme were subsequently included in the envelope through announcements. The relevant government departments notified parliament of the contingent liability arising from these schemes on a case-by-case basis. *Ad hoc* legislation was sometimes necessary. For example, the Treasury passed a statutory instrument, the Financial Services and Markets Act 2000 (Regulated Activities) (Coronavirus) (Amendment) Order 2020, which came into force on 4 May 2020, in order to ease credit access to businesses under the Bounce Back Loan Scheme.

Institutional responsibilities for the implementation of the balance sheet measures have been allocated across the public sector. The COVID-19 Corporate Finance Facility is operated by the Bank of England on behalf of HM Treasury. The Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme are administered by the British Business Bank, operating under the auspices of the Department for Business, Energy and Industrial Strategy.

Transparency and risk analysis

The United Kingdom’s budget and year-end financial statements are prepared by HM Treasury for the whole of the public sector on an accruals basis using International Financial Reporting Standards as adapted for the public sector. Interim reporting is a responsibility of the Office for National Statistics, which publishes statistical bulletins for general government compliant with the *Government Finance Statistics Manual*’s requirements on a monthly, quarterly and annual basis.

The Office for Budget Responsibility, the United Kingdom’s independent fiscal institution, has a broad mandate that comprises the preparation and publication of macroeconomic and forecasts alongside the budget, as well as a monthly commentary on public finances. It is notable that the United Kingdom is the only country in the world where a detailed report on fiscal risks is prepared by the independent fiscal institution and a government response is published to explain how these risks are managed.

Key information published by HM Treasury

Each year, HM Treasury prepares at least one Budget and three supply legislations. 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 supply legislations are the means by which the government seeks authority from parliament for government spending each year. The process is organised around three documents: the Main Estimates, Supplementary Estimates and Vote on Account.

The Main Supply Estimates for 2020-21 published in May 2020 present the COVID-19 Corporate Finance Facility as an unquantifiable contingent liability (HM Treasury, 2020[90]). The various loan and loan guarantee schemes are considered as contingent liabilities (Office for Budget Responsibility, 2020[91]). The November 2020 Spending Review provides GBP 0.519 billion of funding in 2021-22 “to support the continued delivery of COVID-19 loans, including paying for the 12-month interest free period on the Bounce Back Loan Scheme and the Coronavirus Business Interruption Loan Scheme” (HM Treasury, 2020[92]).

In addition to the information provided in the traditional budget documentation, a web page managed by HM Treasury publishes weekly business loan schemes statistics for the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme, the Bounce Back Loan Scheme and the Future Fund (HM Treasury, 2020[93]). Data include the total number of applications, the number of approved applications and the value of loans approved. Table 8 displays the uptake under each of the schemes as of 21 February 2021.

Table 8. Uptake on loan and loan guarantee schemes in the United Kingdom as of 21 February 2021

	Bounce Back Loan Scheme	Coronavirus Business Interruption Loan Scheme	Coronavirus Large Business Interruption Loan Scheme	Future Fund
Uptake	GBP 45.6 billion	GBP 22 billion	GBP 5.3 billion	GBP 1.1 billion

A wealth of information is published by HM Treasury on how it is managing fiscal risks, including balance sheet and contingent liabilities risks. The following publications are particularly important in the context of the current crisis:

- The report *Government as Insurer of Last Resort: Managing Contingent Liabilities in the Public Sector* (HM Treasury, 2020[16]), published in March 2020, outlines how the government manages contingent liabilities, with the objective to reduce the associated risk and how it can improve this role.[21]
- The *Balance Sheet Review Report: Improving Public Sector Balance Sheet Management* (HM Treasury, 2020[23]), published in November 2020, presents the principles and framework governing the management of public assets and liabilities and identifies opportunities to reduce balance sheet risks, including in relation to the new COVID-19 measures. The report states that taxpayers should be compensated for the fiscal risks associated with contingent liabilities, such as loan guarantee schemes. Charging fees for risk would reduce, if not equal, the expected cost for the guarantees and insurance the government provides in its role “as lender of last resort”.

The policy costings document of the Spending Review 2020 does not cover the various emergency balance sheet measures, even though they were taken after Budget 2020.

Key information published by the Office for National Statistics

The Office for National Statistics clarified in 2020 that the Coronavirus Business Interruption Loan Scheme, the Coronavirus Large Business Interruption Loan Scheme and the Bounce Back Loan Scheme would be treated in government statistics as so-called standardised guarantee schemes. Accordingly, the expected cost is accrued as government expenditures as guarantees are provided. This expenditure, recorded as a capital transfer, contributes to an increase in public sector net debt. An estimate of expected calls would be recorded as a liability for the government from inception. When calls on guarantees are actually made, thereby leading to government cash spending, they will be considered as financial transactions which will not affect public sector net debt. In addition, guarantee fees and business interruption payments – to cover first-year interest payments of borrowers under the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme – made by government are recorded as revenue and spending respectively, at the time they occur. These schemes are, however, not yet fully implemented in the public sector finance statistics (Office for National Statistics, 2020[94]).

Regarding the COVID-19 Corporate Finance Facility, the Office for National Statistics provisionally determined that the commercial paper should be treated as a central government liquid asset and so will net off in the calculation of the public sector net debt, one of the fiscal targets monitored by the government and legislature (Office for National Statistics, 2020[94]).

Key information published by the Office for Budget Responsibility

The Office for Budget Responsibility is one of the key actors in the analysis of the financial impacts and risks associated with the government's COVID-19 balance sheet measures, which were discussed and updated regularly over the course of the year 2020.

First, the Office for Budget Responsibility's July 2020 *Fiscal Sustainability Report* (Office for Budget Responsibility, 2020[89]) includes estimates of the fiscal costs of the schemes under an upside, a central and a downside scenario. The costs are assumed to be non-linear across scenarios (Table 9). The fiscal loss rate is computed as the default rate multiplied by the loss-given-default rate and the guarantee rate. The estimated default rates and loss-given-default rates are derived from the experience of the GFC. The source of the variation between fiscal loss rates across scenarios is not provided.

The Office for Budget Responsibility's November 2020 *Economic and Fiscal Outlook* (Office for Budget Responsibility, 2020[91]) estimates the lifetime fiscal costs of loans and guarantee schemes at GBP 31.4 billion in 2020-21 (GBP 26.6 billion of which due to the Bounce Back Loan Scheme), and by GBP 0.4 billion in 2021-22. These estimates are higher than those in the *Fiscal Sustainability Report* of July 2020. This difference is due to higher projected loss rates and the extension of the schemes to 31 January 2021. Although the initial forecasts from the July 2020 *Fiscal Sustainability Report* are based on the Office for Budget Responsibility's own assumptions, the November 2020 *Economic and Fiscal Outlook* forecast rests on loss-rate assumptions made by the Department for Business, Energy and Industrial Strategy in September 2020 (Department for Business, Energy & Industrial Strategy, 2020[95]). These assumptions are available in Table 9. The November 2020 forecasts are closest to the *Fiscal Sustainability Report*'s downside scenario.

Other

The National Audit Office published an *Investigation Into the Bounce Back Loan Scheme* report on 7 October 2020, as it is the largest and riskiest business loan scheme put in place to counter the economic impact of the COVID-19 pandemic (Comptroller and Auditor General, 2020[96]). According to this report, taxpayers' money losses are likely to occur due to the scheme's lack of strong credit risk analysis and customer checks. The report also provides factual information on the scheme's value-for-money risks,

including “significant residual fraud risks”, but it does not assess these risks, arguing that there is not enough information about the costs and benefits of the scheme.

Table 9. Guaranteed loan schemes’ loss rate assumptions by the Office for Budget Responsibility

	Coronavirus Business Interruption Loan Scheme	Coronavirus Large Business Interruption Loan Scheme	Bounce Back Loan Scheme
Office for Budget Responsibility July *Fiscal Sustainability Report* upside scenario	2%	2%	15%
Office for Budget Responsibility July *Fiscal Sustainability Report* central scenario	4%	4%	30%
Office for Budget Responsibility July *Fiscal Sustainability Report* downside scenario	8%	8%	60%
Office for Budget Responsibility November *Economic and Fiscal Outlook*	10-25%	5-20%	35-60%

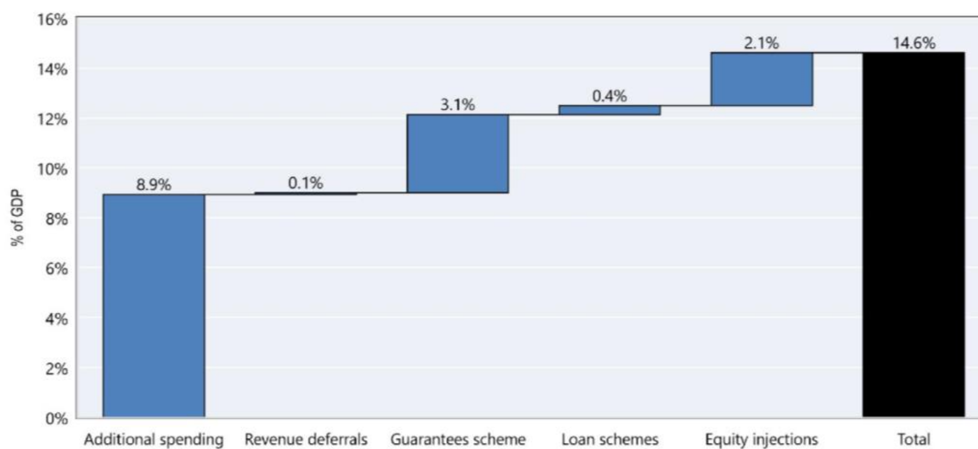
United States

Emergency fiscal package in response to COVID-19

Overall description

From March to May 2020, the US government announced USD 3.1 trillion (14.6% of GDP) of support measures in the form of appropriations in four budgetary laws (Figure **12**). USD 1.9 trillion (8.9% of GDP) were additional spending measures, notably tax credits and the expansion of unemployment insurance. Revenue deferrals only amounted to USD 18 billion (0.1% of GDP). Balance sheet measures, notably the loans, guarantees and equity investments discussed in this case study, were about USD 1.2 trillion (5.6% of GDP).

Figure 12. Size of emergency fiscal measures in the United States



Sources: IMF (2020[97]); CBO (2020[98]).

Loan guarantees: Paycheck Protection Program

This scheme, managed the by the US Small Business Administration and administered by a national network of banks and credit unions, was estimated at USD 670 billion (3.1% of GDP). The Coronavirus Aid, Relief, and Economic Security (CARES) Act provided a direct appropriation for the subsidy cost of guaranteeing and delivering the Paycheck Protection Program loans of USD 349 billion. The Paycheck Protection Program and Health Care Enhancement Act increased the subsidy appropriation for the scheme by USD 321 billion. The scheme provided loans up to USD 10 million to small businesses affected by the COVID-19 crisis. The Small Business Administration guaranteed these loans in full. At least 60% of the amount of the loan eligible for forgiveness had to be used for payroll costs to qualify for full loan forgiveness. Funds that were not forgiven must be paid back at a fixed 1% interest rate and maturity of two or five years depending on when the funds were borrowed. The programme closed on 8 August 2020.[22]

Loans to the aviation sector

The Pandemic Relief for Aviation Workers section of the CARES Act provided a direct appropriation of USD 46 billion (0.2% of GDP) of loans to the airline industry: USD 25 billion for passenger air carriers and related businesses, USD 17 billion for businesses critical to maintaining national security, and USD 4 billion for cargo air carriers. This scheme expired on 31 December 2020.[23]

The Credit Assistance for Air Carriers and Businesses that are Critical to National Security section of the CARES Act provided USD 32 billion (0.2% of GDP) for airline payroll support: USD 25 billion for passenger air carriers, USD 4 billion for cargo air carriers and USD 3 billion for related contractors. The Treasury announced that 30% of this support would come in the form of loans and the remaining 70% in the form of grants. This loan programme was time-bound as it expired on 31 December 2020.

Equity investments in the Federal Reserve's emerging lending facilities

The CARES Act appropriated USD 500 billion to the Treasury and authorised at least USD 454 billion (2.1% of GDP) of that amount, as well as any unused portions of the USD 46 billion of credit assistance to the airline industry, to support emergency lending facilities established by the Federal Reserve. The Treasury funded various facilities through equity investments in special purpose vehicles. Among other things, these facilities purchased corporate debt and lent to SMEs, states, cities and counties. These facilities were time-bound as they expired on 31 December 2020. Overall, the Treasury announced USD 195 billion of equity investments to support USD 1.95 trillion of lending by the Federal Reserve.

Legal basis and institutional responsibilities for the balance sheet measures

The CARES Act, passed on 27 March 2020, provided the legal basis for the balance sheet instruments. The US Congress built transparency and oversight mechanisms into the CARES Act, including a special congressional commission and two new inspector general arrangements to oversee the more than USD 2 trillion in relief. The House of Representatives also established a select subcommittee to examine and report on the government's preparedness for the pandemic and its response.

The COVID-19 Congressional Oversight Commission was a temporary committee. It had the mandate to report to Congress on the actions and transparency of the Treasury Secretary, the Federal Reserve Board of Governors and the government in implementing the act, with a particular focus on emergency loans and guarantees to US businesses in sectors that experienced losses due to COVID-19. It reports every 30 days until 30 September 2025.[24]

The Federal Reserve reports at least once a month to Congress through a *Periodic Report: Update on Outstanding Lending Facilities Authorized by the Board Under Section 13(3) of the Federal Reserve Act* (US Federal Reserve, 2020[99]). This reporting indicates how much income is derived from each lending facility and whether the Federal Reserve Board expects that losses to the Federal Reserve will materialise.

Transparency and risk analysis

The federal government of the United States has a budget system that is mostly prepared on a cash basis. At year-end, the Financial Report of the US government is, like budget outturns, however prepared on full accrual basis, based on accounting standards which are set by an independent advisory board (Federal Accounting Standards Advisory Board). The financial statements are published for both individual federal entities and for the federal government as a whole. Accrual measures are used in the federal budget for a few activities, mainly federal credit programmes (such as student loans and mortgage guarantees), interest on the debt and capital leases.

Loans for airlines payroll support

The CARES Act requires these loans to be costed on a net present value basis, in accordance with the Federal Credit Reform of 1990 (Box 4). As such, the subsidy cost corresponds to the estimated lifetime cost to the government.

Concerning the provisioning of loans for airline payroll support, the CARES Act authorised the Treasury Secretary "to receive warrants, equity interest, or senior debt instruments issued by the loan recipients as compensation for providing the loans". Such financial instruments are required in exchange for loans to air

carriers, eligible businesses and national security businesses. The Treasury required that passenger air carriers, cargo air carriers and eligible contractors who received support greater than USD 100 million, USD 50 million and USD 37.5 million, respectively, provide financial instruments as compensation for receiving the loans (US Department of the Treasury, 2020[100]). The list of loan recipients was available on the Treasury's website, along with the type and amount of financial instruments used as taxpayer compensation for each loan.

On 16 April 2020, the Congressional Budget Office (CBO) published *a Preliminary Estimate of the Effects of the CARES Act* (CBO, 2020[101]). It estimated that loans of USD 9 billion would be issued. This estimate was based on "historical data from major credit-rating agencies on the probability of default and recoveries" and interest rates of about 1%. CBO projected an average subsidy rate around 7% and a subsidy cost of these loans of about USD 1 billion over the period 2020-23. It also estimated taxpayer compensation for the government for providing the loans. It estimated that returns on equity – provided as taxpayer compensation – will total less than USD 0.5 billion between 2020 and 2030. In the budget, this compensation is recorded as offsetting receipts. Overall, CBO found that the net cost of this airline payroll support, including grant payments, loan subsidy cost and equity returns, will total USD 24 billion over 2020-30.

Loans for air carriers and national security businesses

Mid-April 2020, CBO indicated that "the estimated subsidy cost of those loans, calculated on a net present value basis, will be recorded on the budget at the time the commitments are made", in accordance with the Federal Credit Reform Act (CBO, 2020[101]). It estimated that the programme credit subsidy cost would be around USD 2 billion over 2020-30. It based this estimate on the assumption that the credit risk of these Treasury loans would be equivalent to the credit risk of high-yield debt with a credit risk rating of at least a B-. This estimate also assumed a subsidy rate of around 10%, based on "historical data from major credit-rating agencies on the probability of default and recoveries".

According to the Seventh Report of the Congressional Oversight Commission, published on 30 November 2020, the Treasury adopted a credit test for granting loans under the section of the CARES Act dedicated to the Credit Assistance for Air Carriers and Businesses that are Critical to National Security (Congressional Oversight Commission, 2020[102]). A business applying for a loan passed this test if it met two of the following three criteria:

Credit criteria	Required level
Leverage (existing debt/2019 adjusted EBITDA)	Must be < 6.0x
Debt service coverage (2019 adjusted EBITDA/2020 existing debt service)	Must be > 1.5x
Collateral (secured debt/tangible assets)	Must be <75%

Note: EBITDA: earnings before interest, taxes, depreciation and amortisation.

In the Treasury monthly outturns, the "ESF – Economic Stabilisation Program" outlay category captures the loans to air carriers and businesses critical to maintaining national security.

According to the CARES Act, loans to air carriers and businesses critical to maintaining national security "shall be at a rate determined by the Secretary based on the risk and the current average yield on outstanding marketable obligations of the United States of comparable maturity." The act also prevents the Treasury from exercising voting power with respect to any shares of common stock acquired in compensation for providing the loans. It also provides that the maturity of any loan or loan guarantee for passenger air carriers may not exceed five years. The list of loan recipients was available on the Treasury website, along with the type and amount of financial instruments used as taxpayer compensation for each loan (US Department of the Treasury, 2020[103]).

Loan guarantee scheme: Small Business Administration Paycheck Protection Program

The CARES Act requires this loan guarantee to be costed on a net present value basis, in accordance with the Federal Credit Reform of 1990. As such, the subsidy costs appropriated in the CARES Act and in the Paycheck Protection Program and Health Care Enhancement Act correspond to the estimated lifetime cost to the government.

In the Treasury monthly outturns, the Small Business Administration Paycheck Protection Program is included in the “Business Loans Programs” category of the Small Business Administration. The document also tracks the cash transactions and balance of the guaranteed and direct loan financing schemes, recorded on a net present value basis, where the “SBA Business Loan Fund” category captures public-private partnership loans.

The Treasury set up a web page with the Paycheck Protection Program’s documentation for borrowers and lenders, programme rules, and reports (US Department of the Treasury, 2020[104]) The US Small Business Administration’s website indicates the number of loans, the average value of loans and the total amount lent at the date of the programme’s closure, on 8 August 2020. At that date, loans with a total value of USD 525 billion were lent under the scheme (US Small Business Administration, 2020[105]).

The CARES Act requires the US Government Accountability Office to publish bi-monthly reports on the impact of the pandemic and the federal government’s response to it. Its report of 30 November 2020 found that the Small Business Administration made around USD 20.2 billion in loan forgiveness payments (US Government Accountability Office, 2020[106]).

Equity investments in the Federal Reserve’s emerging lending facilities

The CARES Act extended the net present value accounting method to investments made by the Treasury into the Federal Reserve emergency lending facilities. The Government Accountability Office further explains that “the subsidy cost is calculated as the estimated net present value of both cash disbursements made to the facilities and cash received from the facilities when the facilities are terminated” (US Government Accountability Office, 2020[107]).

In its mid-April cost estimate report, CBO estimated that equity investments in the Federal Reserve’s emergency lending facilities would not have any budgetary impact as income and cost arising from it would offset each other (CBO, 2020[101])

The Federal Reserve’s periodic reports to Congress on the CARES Act-related emergency lending facilities indicating consistently that they expected no losses to the Treasury’s investments in these facilities (US Federal Reserve, 2020[108]).

As of 31 July 2020, the Treasury estimated that cash paid to the facilities would exceed the revenue received from the facilities by USD 18 billion (US Government Accountability Office, 2020[107]).

In the Treasury monthly outturns, the “ESF – Economic Stabilisation Program” outlay category includes the Treasury investments in the Federal Reserve’s emergency lending facilities.

Box 4. The Federal Credit Reform Act of 1990 and the budgeting of balance sheet-based measures

The US Congress passed credit reform in 1990 as part of a much larger legislative agreement on the budget that imposed limits/caps on funds available for obligation for annually appropriated programmes and a pay-as-you-go process, which required that legislative actions increasing the deficit be offset, for programmes not subject to annual appropriations. The primary goal of the Federal Credit Reform Act was to substitute subsidy costs for cash flows so that budget decisions could be based on a more meaningful measure of cost. As such, under this act, funding is authorised and allocated for the "subsidy cost" of a credit programme.

The act defines the subsidy cost as the estimated long-term cost to the government of a direct loan or loan guarantee or modification thereof, calculated on a net present value basis, excluding administrative costs and any incidental effects on governmental receipts or outlays. Accordingly, agencies estimate all future expected cash flows between the government and the public for the life of the loans being made or guaranteed, including expected losses.

The credit reform requires that funding for agency administrative expenses of direct loan or loan guarantee programmes be excluded from the net present value subsidy cost calculation. The budgetary application separates subsidy costs from the non-subsidised cash flows, moves them to separate accounts, and reports the non-subsidised cash flows in a part of the budget where they would carry less weight than subsidy costs in budgeting, analysis and policy decisions. In other words, credit programme administrative expenses are recorded on a cash basis, equivalent to the funding for all other government programme administrative expenses.

Currently, the Federal Credit Reform Act of 1990 requires the discounting of expected cash flows at the interest rate on Treasury securities (the rate at which the government borrows money). An alternative and often discussed approach, known as "fair value," would add a market risk premium to the Treasury rate and use the resulting higher interest rate as the discount rate to calculate credit subsidies.

Source: US Government (1990[109]).

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Notes

[1] In addition, more recent announcements by governments and 2021 budget bills already laid out before legislatures suggest that further lockdowns and the recovery phase will be supported by expansionary fiscal policy in many countries.

[2] This article focuses on policy measures as part of the "emergency fiscal packages", announced mostly between March and July 2020. It does not cover the so-called "economic recovery" policy measures and measures taken in light of further waves of COVID-19 in late 2020 and early 2021.

[3] As the COVID-19 crisis was not over when this article was prepared by the end of 2020, the preliminary findings may have to be reassessed at a later stage.

[4] Tax deferrals do not involve administrative costs to distribute benefits or grant loans and the collection of government revenue is primarily a timing issue.

[5] Beyond new spending measures voted in supplementary budgets, measuring the total size of governments' fiscal packages is difficult, with COVID-19 related expenses also managed through existing baselines or reprioritisation that are difficult to track.

[6] A government loan to a firm would most likely be an increase in gross debt (depending on transaction and consolidation with the central bank), but would be offset by a financial asset with no impact on net debt or the overall balance sheet.

[7] Based on the OECD 2020 Survey of Accruals Practices conducted during the March 2020 meeting of the OECD Network of Senior Financial Management and Reporting Officials.

[8] This calculation excludes the Reserve Bank of Australia's Term Funding Facility that could reach AUD 90 billion (4.5% of GDP) according to the end-July 2020 Economic and Fiscal Update.

[9] 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.

[10] The statement of risks identifies all "general fiscal risks", specific contingent liabilities and specific contingent assets. Contingent liabilities and assets are categorised as "significant but remote", "unquantifiable" or "quantifiable". Only quantifiable risks are measured. The statement of risks only lists fiscal risks, such as the SME Guarantee Scheme, that have a 50% chance of higher of occurrence or possible impact on the forward estimates of AUD 20 million or greater in any given year, or AUD 50 million over the forward estimates period.

[11] The Final Budget Outcome for 2019-20 indicates a net negative cash flow of AUD 1.7 billion for the Structured Finance Support Fund, classified as an investment in financial assets for policy purposes.

[12] On a more basic level, Article 82 of the organic Budget Act stipulates that only the Minister of Finance may assume a government guarantee liability, and that issuance must be authorised by either the Budget Act or separate legislation and is subject to a maximum exposure limit defined by the Federal Maximum Guarantee Limitation Act ("Bundeshaftungsobergrenzengesetz"). For 2015-18, this limit was set at EUR 197 billion.

[13] See, for instance, 2021 Budget Report, Table 13, "COVID-19-Krisenbewältigungsfonds im BVA-E 2021".

[14] For further details, see "Teilheft Bundesvoranschlag 2021, Untergliederung 45, Bundesvermögen", Table "II.F Übersicht über Mittelaufbringungen und Mittelverwendungen von besonderer Budget- und Steuerungsrelevanz".

[15] PBO did not publish costing notes on the Mid-Market Financing Program or the Mid-Market Financing and Guarantee Program.

[16] The state-owned enterprise also benefited from a EUR 4 billion loan, with a 90% state guarantee, under the loan guarantee scheme.

[17] Firms receiving support could be requested to submit a declaration of commitment, published in the Federal Gazette.

[18] www.deutsche-finanzagentur.de/en/economicstabilisation.

[19] 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.

[20] https://covid19.easygov.swiss.

[21] The four typologies of contingent liabilities identified are financial guarantees, explicit government insurance, legal cases and purchaser protections. The first two categories are covered by the government's insurer of last resort function.

[22] The scheme reopened on 11 January 2021 and benefited from an increase of USD 284 billion in funding via the Consolidated Appropriations Act 2021.

[23] This payroll support programme was extended by an appropriation of USD 16 billion under the Consolidated Appropriations Act 2021.

[24] The USD 32 billion airline payroll support programme was, however, not covered by this the Congressional Oversight Commission.

Brazil: Moving the budget focus from the short to the medium term

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This article presents a brief overview of the fiscal rules framework in Brazil. It introduces the concept and stages of implementing a medium-term expenditure framework (MTEF) and suggests ways to refine Brazil's incipient medium-term fiscal framework. It then proposes to bring the Brazilian budget process more in line with the best international fiscal planning practices, with the adoption of an MTEF, in order to incorporate the medium-term perspective into the allocation of public resources. By way of conclusion, it describes the benefits of having an MTEF directing public sector accounts.

This article was written by Helio Tollini, Budget Advisor, Chamber of Deputies, Brazil.

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The opinions expressed and arguments employed herein are solely those of the author, written in his personal capacity.

Introduction

Perhaps due to the absence of medium-term fiscal planning, there is a myth in Brazilian budgeting that at the end of the financial year, limits imposed on the discretionary expenditures would ensure the achievement of the annual primary fiscal target. Based on this belief, over the years the executive branch silently accepted the inclusion in the annual budget law of huge amounts of parliamentary amendments, which usually have no funding by actual revenue. On the other hand, the legislative branch accepts that much of the expenditure thus included would never actually take place.[1]

However, as of 2013, there was a strong loss of federal government revenue, caused both by the economic crisis and by tax breaks granted in abundance, as well as an accelerated growth in mandatory expenditures (mainly in social security and personnel). In this context, even with the setting of less ambitious annual fiscal targets (from 2016 the annual targets were primary deficits), the amount of funding available for discretionary expenditures has declined. In 2016, some agencies' officers went public to complain that appropriations allocated to their administrative activities were insufficient, which could paralyse essential services. In 2019, there were public demonstrations against the blocking of budget appropriations, especially those allocated to the education sector. These complaints brought to the public's attention the difficulty the federal government was facing to make additional reductions in discretionary expenditures.

In summary, with the country in a deep economic crisis, losing revenues, increasing mandatory expenditures and discretionary expenditures close to the minimum necessary to maintain public services, it became clear that the resumption of primary surpluses in the federal government's accounts would take years to achieve. Consequently, the long-run sustainability of the federal public debt was threatened. There were no more short-term fiscal solutions and the option of the Temer government, newly installed in mid-2016, was for an adjustment on the expenditure side, via the establishment of a constitutional expenditure ceiling for primary federal government expenditure, which would promote a gradual adjustment of public accounts over the long run.

That said, two shortcomings remain in the Brazilian fiscal-budgetary framework that need to be overcome: 1) the absence of a permanent medium-term fiscal planning rule, compatible with the desired path for reducing the ratio between gross debt and gross domestic product (GDP); and 2) the prevalence of an excessively short horizon for taking decisions regarding public revenues and expenditures during the preparation of the draft budget.

This article is structured as follows. The next section briefly presents the concept of a medium-term expenditure framework (MTEF), an instrument successfully adopted by most developed countries since the economic crisis of 2008. The following section describes the case of Sweden, a world reference regarding the quality of its public financial management. The two subsequent sections are propositional: they discuss alternatives to align the Brazilian budget process with the best international practices when it comes to medium-term fiscal planning. Finally, the conclusion argues that since 1988, Brazil has the necessary instruments to properly carry out medium-term fiscal planning. Political will and technical conviction would therefore facilitate the implementation of an MTEF, bringing gains for both the technical area of the government and for the political area in the National Congress.

The medium-term expenditure framework

A significant portion of revenue and expenditure decisions have implications that extend over time, usually well beyond the usual annual cycle of a budget law. It is indisputable that an annual budget law constitutes a fundamental stage in which the allocation of public resources is substantiated, but the short-term horizon – one year – does not allow fiscal planning and strategic planning to be consistent, as they disregard the impact over the following years of decisions taken in the present.

Most OECD countries have overcome these difficulties by implementing a medium-term fiscal framework (MTFF) combined with an MTEF. The MTFF allows broadening the fiscal policy horizon by presenting an estimate of the evolution of aggregates of income and expenditure. The MTEF broadens the horizon of resource allocation beyond the annual budget calendar according to strategic spending priorities. The Brazilian federal government, despite recent advances, makes public only an incipient MTFF. By perfecting the MTFF and introducing an MTEF, in addition to the fiscal forecast, Brazil would benefit from an instrument that annually allocates public resources to the strategic priorities defined for the medium term, on a rolling basis, while ensuring fiscal discipline.

The preparation of an MTEF starts after an MTFF has already been established, in which the fiscal targets for each of the financial years considered have been determined and the availability of revenue in the medium term estimated. As a result, it becomes possible to establish a ceiling for expenditures in each of these years, compatible with the fiscal targets and estimated revenues. From then on, the practice among the different countries that adopt an MTEF varies considerably, but in general, at first, it is appropriate to propose the distribution of the expenditure ceiling, as indicated in the MTFF, into subceilings by area, ministry, sector, function or programme.

In parallel, and interactively, ministries and sectoral bodies must estimate the future costs of current public policies (baseline) to acknowledge how much the existing public policies compromise the fiscal space available in the medium term. Ministries and sectoral entities should then prepare lists containing the new spending initiatives that they consider important to implement or initiate during the time horizon of the MTEF. Transparently, the government should make a distinction between expenditures that arise from existing public policies and those arising from new initiatives. However, within the defined subceilings, all of these expenditures compete for the available resources.

Thus, in this strategic planning model, the “top-down” limitation from the MTFF interacts and restricts “bottom-up” costing resulting from the baseline and the new spending initiatives. In this coexistence, the areas compete for limited resources, highlighting the choices made when accepting or rejecting public policies, reducing the scope for opportunistic decisions. In addition to bringing clarity to the process of prioritising expenditures, which compete between areas and within the same area, this model allows identifying the measures and reforms that need to be adopted (including by the legislative branch) over the following years to enable compliance with the expenditure ceilings.

As for differences in the MTEF models adopted by different countries, it is worth mentioning briefly:

- coverage (whether it includes social security; whether it includes only primary expenditures or not, etc)
- degree of detail (expenditures aggregated in areas or divided into programmes/actions)
- time horizon (two, three or even four years beyond the budget reference year)
- character of the limits imposed on future years (mandatory, indicative or a combination)
- division of resources (by ministry, area, sector, function or programme)
- way to deal with inflation (nominal or constant values)
- constitution of reserves (increasing in time, to accommodate contingencies such as changes in the economic situation or the introduction of new public policies)
- role of parliament (a requirement for approval, to be informed or no role).

According to OECD (2019[1]), of the 31 OECD member countries that adopt an MTEF, 28 of them have a time horizon of 3-4 years. Canada, Iceland and Korea adopt a longer time horizon of five years. Of these 31 countries, 25 adopt a rolling-basis model, removing annually the elapsed financial year and adding a future year. The exceptions are the Czech Republic, Finland, France, Japan, the Netherlands and the United Kingdom, which adopt a fiscal plan, usually coinciding with the political cycle (with the disadvantage that the time horizon shrinks during the execution of the plan). Regarding the character of the ceilings, the

expenditure ceilings defined in the MTEF are mandatory in 12 of these 31 countries, while in 10 of them the ceilings are only indicative, with different arrangements in the other countries.

In addition to the MTEF, an instrument that helps prioritise expenditures and which OECD countries have been using increasingly is the systematic review of expenditures (usually called spending review)[2]. This seeks to identify savings measures based on an assessment of existing public policies, to expand the fiscal space available for new priority expenditures. The adoption of an MTEF combined with a periodic spending review ensures an effective public expenditure performance assessment, focusing on the medium-term budgeting process. The anticipated, repeated and interactive discussion of sectorial programming, in an environment of respect for the country's fiscal capacity, consolidates the practice of strategic prioritisation in the medium term.

Insurmountable difficulties when the focus is only on the short term (a financial year), such as those arising from excessive revenue earmarking or the high degree of rigidity of public expenditure, can be overcome when the focus is turned to the medium term. Time becomes an ally. The MTEF highlights the obstacles that need to be overcome at present to make viable the indicative subceilings intended for the horizon of three or four years. As additional benefits, it reinforces aspects previously relegated to a background in an environment that focus on the short term, such as sector planning, performance evaluation, accountability and transparency.

In summary, the main objectives of a MTFF/MTEF would be to impose, in advance, fiscal targets established for the medium term, in line with the long-term objectives of the fiscal policy, and to allocate public resources to the strategic priorities defined beforehand, respecting allocative limits compatible with the defined fiscal target.

The advantages of developing an MTEF over traditional annual budgeting would be:

- Imposing greater fiscal discipline by limiting the preparation and execution of budgets of the subsequent years to levels consistent with the government's medium- and long-term fiscal and sectoral objectives.
- Improving the strategic prioritisation of expenditures, by discussing repeatedly and in advance the sectorial programming for each year, and allowing the abstraction from immediate pressures and legal and administrative restrictions that affect the traditional budget process.
- Allowing the early identification of measures the government needs to adopt to circumvent rigidities and make the following years' ceilings feasible.
- Fostering greater efficiency in intertemporal spending planning by providing greater predictability and transparency to sector managers (and subnational governments) regarding the likely resources they will have in future budgets.

The medium-term budget process in Sweden

In Sweden, the 1997 organic budget law established a key element of the Swedish fiscal policy framework: the disciplined central government budgeting process, both for the bill and the appreciation of the Swedish unicameral parliament (Riksdag)[3]. These two phases of budget formulation began to adopt a "top-down" approach, in which different spending proposals compete with each other, in a unified review process. Also, consideration of any proposal to increase spending (even if it comes from a new initiative) would happen in the context of the pre-determined fiscal space, defined by a spending ceiling and the fiscal surplus target. Since then, the guiding principle in budgeting is that any expenditure increases in an area must be covered by expenditure cuts in the same area (or in another area, if parliament approves). This process has helped maintain the country's fiscal discipline by ensuring that budget expenditures do not add up to a total amount greater than that compatible with a sustainable fiscal policy.[4]

The organic budget law allowed the government to propose to the Riksdag a ceiling on central government spending (including social security benefits that are outside the budget but excluding debt interest), set at nominal values for the budget year (year "t") and for the two subsequent years ("t+1" and "t+2"). The ceiling set for "t+2" is mandatory, meaning that the future year's new scenarios cannot change the nominal value thus defined.[5] In 2010, after more than ten years of positive experience, an amendment introduced in the organic budget law made the presentation of a medium-term fiscal scenario setting expenditure ceilings for future years mandatory. On the occasion, another year ("t+3") was added to the model, of an indicative nature, meaning that it could be changed in the following year, when it becomes "t+2".[6]

The Swedish government classifies expenditures into 27 different areas, grouped by thematic affinity, which also serve to define high-level goals and indicators, as well as to report results. When budgeting, the expenditure ceiling is distributed among these 27 thematic areas in such a way that the sum of these subceilings is slightly lower than the total spending ceiling. In contrast to its mandatory nature up to "t+2", the expenditure subceilings established in advance have only an indicative character.

Sweden adopts a "budgeting margin", defined as the difference between the spending ceiling and the sum of the 27 subceilings. A governmental guideline defines this margin as a minimum percentage of the expenditure ceiling, normally increasing over the years of the MTEF (margins may change when a new MTEF is put in place). It functions as a not budgeted reserve, which introduces some flexibility in a model known for its rigidity. In practice, part of the margin may serve to meet new spending priorities that arise when political negotiations take place at the end of the budget bill drafting process.

In principle, parliament has the power to amend the budget bill. However, the reform of the legislative process that took place in 1997 centralised macro-fiscal decisions in the Finance Committee and introduced a "top-down" voting sequence that, in practice, makes it difficult to approve amendments.[7] Driven by the severe economic crisis of the early 1990s, the effort to reform the legislative budget process took several years.[8] The Finance Committee is responsible for assessing the spending ceiling proposed by the government and the 27 subceilings for the expenditure areas (based on interlocutions and preliminary reports submitted by sectoral committees by the end of October).

Until November 15, the committee can propose an increase in one or more subceilings to parliament, but the proposal needs to simultaneously present a reduction of equivalent value in other subceilings. Until the end of November, parliament approves, in a single vote, the subceilings of the 27 expenditure areas. Then, the 15 sectoral committees, according to their competencies (which include 1-4 expenditure areas), discuss, propose amendments, approve with a single vote and send the programming of the 27 expenditure areas (respecting the approved subceilings) to parliament. Finally, before the Christmas break, the Riksdag approves, also with a single vote, the spending programme for each expenditure area.

Until 2000, the draft Fiscal Policy Law presented the expenditure ceilings, discussed and voted by parliament under that law. The draft Fiscal Policy Law also presented the 27 sectoral subceilings (of an indicative nature), containing a preliminary programming proposal for each one. Parliament would then approve them as a guideline for the preparation of the budgetary bill. Since 2001, the Fiscal Policy Law has only presented a fiscal scenario, to give the Riksdag a first view of the country's macro-fiscal situation, but the discussion and approval of the expenditure ceiling only happened in the context of the appreciation of the budget bill. Thereafter, the Fiscal Policy Law has omitted sectorial subceilings and other details about the expenditures, reserved for the draft budget.

In addition, Sweden's fiscal-budgetary policy framework meets the basic requirements for transparency and external control; since 2000 it has introduced a nominal surplus target for the general government[9] and requires that local governments achieve at least a balanced budget result; since 2007, it has a Fiscal Policy Council that provides an independent critical perspective of fiscal policy and assesses compliance with fiscal rules; since 2009, it has had solid safeguards against fiscal risks; and, as of 2019, it introduced an anchor for the consolidated gross debt (set at 35% of GDP) and permanently incorporated the spending review mechanism.

Due to this framework, in which both fiscal targets and the level of primary expenditures are defined in advance, tax policy in Sweden may end up being adjusted to generate, over the economic cycle (which mitigates its countercyclical character), the revenues necessary to ensure compliance with fiscal targets over the years. On the other hand, if the economic scenario proves to be more favourable than the one that based the formulation of the expenditure ceiling, eventual additional revenues are usually used to reduce public debt more quickly − not to finance additional expenditures.

A gap in the Swedish framework concerns the absence of sanctions for non-compliance with fiscal targets or the expenditure ceiling. The decision not to incorporate penalties in the organic budget law, neither in the original version approved in 1997 nor in the revision made in 2010, stemmed from the belief that sanctions would occur in the political sphere, with the political party responsible for non-compliance likely losing the subsequent parliamentary elections. The existence of administrative or criminal punishment provided for by law for eventual non-compliance with the fiscal target or the expenditure ceiling could strengthen the credibility of the medium-term planning system in Sweden (this issue is a cause of controversy in Sweden because there has never been a breach in the mandatory ceilings or fiscal targets).

Proposals to improve the fiscal-budgetary process in Brazil

The fiscal rules currently adopted in Brazil are of three types, notably for budget balance (primary result and golden rule), debt (consolidated and securities) and expenditures (personnel and expenditure ceiling).[10] These rules are part of the Brazilian normative legal framework: starting with the Federal Constitution (in its permanent body and temporary provisions), passing through a complementary law and including Senate resolutions, as discussed below.[11]

The 1988 Federal Constitution

- The National Congress shall establish a limit for the federal securities debt.
- The Federal Senate shall establish global limits for the consolidated debt of the federal government, the states, the Federal District and the municipalities.
- The Federal Senate shall establish global limits and conditions for the amount of securities debt of the states, the Federal District and the municipalities.
- Credit operations cannot exceed capital expenditures, except for new credits approved by parliament by the absolute majority. That is, the entity cannot run into debt to finance current expenditures (golden rule).[12]
- The Transitional Constitutional Provision Act of 2016, institutes the “New Fiscal Regime” (NRF), which establishes individual primary ceilings for the expenditures of the executive branch and for each entity of the legislative and judiciary branches, based on those verified at the end of 2016, allowing its annual correction according to the observed 12-month inflation index. It also prohibits the creation or increase of mandatory expenditures or the concession of tax remission of a continuous nature without offsetting its financial effects by a permanent increase in revenue or reduction in expenditure.

Complementary Law No. 101 of 2000 – Fiscal Responsibility Law

- Establishes a Fiscal Targets Annex in the Budget Guidelines Law (LDO) − an annual law that precedes the draft budget − containing targets for the budget reference year and the two subsequent ones, in current and constant values, relative to revenues, expenditures, nominal and primary results, and debt amount.[13]

- The total personnel expenditure cannot exceed, regarding the current net revenue (RCL) of the entity, the percentages of 50% for the federal government and 60% for states and municipalities, broken down by branch and agency.[14]
- Prohibits the creation or increase of mandatory expenditures or the concession of tax remission of a continuous nature without offsetting its financial effects by a permanent increase in revenue or reduction in expenditure.
- The Fiscal Responsibility Law (LRF) also reiterates constitutional provisions for the consolidated debts of federal and local governments and federal securities, complements the constitutional provision for credit operations, and regulates the granting of guarantees.

Federal Senate Resolutions

No. 40 of 2001

- Establishes global limits for subnational entities for their consolidated public debt regarding the entity's RCL: for states and the Federal District, the maximum relation is 2; for municipalities it is 1.2.

No. 43 of 2001

- Establishes for the subnational governments a limit of 16% of their RCL for carrying out internal and external credit operations; 11.5% of their RCL for the annual commitment with consolidated debt services; 22% of their RCL for the granting of guarantees; and 7% of their RCL for budget revenue advances.

No. 48 of 2007

- Establishes overall limits for external and internal credit operations of the federal government, its agencies and other controlled entities, and establishes limits and conditions for granting the federal government's guarantees to external and internal credit operations.

Despite the number of rules and instruments used, the fiscal framework does not contain a fiscal policy objective in the long term.

Regarding the LRF's Fiscal Targets Annex, since its implementation in 2000, the various federal government administrations have never bothered to elaborate, in a pertinent manner, the fiscal scenarios set out in it. In addition to its short-term horizon – only two financial years after the budget year – until recently the fiscal table contained only five lines (total primary revenues, total primary expenditures, the primary target, the interest payments and the nominal result).

The figures shown for the two subsequent financial years used to be, roughly speaking, simply a repetition of the figures for the budget reference year, with occasional adjustments, mainly associated with inflation. There was no real estimate for these two subsequent years based on projections of revenue and expenditure flows. In other words, there was no concern with transparency in the medium term regarding the management of fiscal policy, since, as presented, the annex made it impossible to evaluate the evolution, in the medium term, of the main revenue and expenditure aggregates.

Despite advances that have recently taken place, before implementing an MTEF in Brazil, it would be necessary to transform the LDO's Fiscal Targets Annex into an effective MTFF. A requirement would be to extend the time horizon of the fiscal table, with the inclusion of one or two more financial years. Also, the rationale underlying the fiscal scenario would have to be presented, ensuring the macroeconomic consistency of medium-term projections when using at least a four-sector model of the economy, which would consider the interactions that occur over time between the various components of these sectors.

Moreover, the evolution estimates of the main aggregates of primary revenues and expenditure must be reliable and capable of distinguishing the future impact of current public policies (baseline) to identify the fiscal space available for new spending initiatives.

If built-in this way, this annex would contain the fiscal targets for each of the financial years contemplated in the fiscal table. Theoretically, these targets should be coherent and compatible with the long-term fiscal policy objective, pursuing the desired trajectory of the relationship between the gross debt and GDP.[15] With the annual targets given, and with reliable estimates of annual revenues, we would know the maximum allowed amount for the total primary expenditure in each financial year (global expenditure ceiling) and how the government plans to distribute it among the large expenditure aggregates.

Adapted based on the Swedish experience, a global ceiling on federal government expenditure in Brazil should be fixed three years (for the year “t+2”) of a mandatory nature, with the ceilings for subsequent years being of an indicative character. It is important to note that the MTFF, containing both mandatory and indicative ceilings, and the fiscal targets, should be annually included in the draft LDO and approved by the National Congress (bicameral). Therefore, the executive branch would propose, annually, the expenditure ceiling for the medium term, on a rolling basis, but Congress would still have “the final say” regarding the amounts and targets involved.

The year 2027 would be a convenient moment for the implementation of a medium-term fiscal rule inspired by the Swedish model, replacing the current expenditure ceiling defined by the New Fiscal Regime (NFR).[16] Until then, expectations are that the current expenditure rule will have fulfilled its main objective, namely, to bring the amount of primary expenditure to levels compatible with the sustainability of public debt.[17] Having achieved this objective, whether in 2027 or sooner, the MTFF/MTEF framework would be a more interesting alternative than the current NFR to guide fiscal policy. It would maintain the current fiscal rigidity in the medium term, but with the advantage of being flexible after the period in which ceilings are mandatory (t+2). Thus, with a shorter time horizon than the NRF and a rolling basis, it would allow correcting the fiscal policy in the medium term as economic indicators evolve.

In order to make the MTEF fiscal policy framework binding, constitutional provisions would need to be established: the MTFF and the MTEF; which expenditure ceilings and subceilings would be mandatory or indicative; the long-term objective of the fiscal policy and the optimum and prudential levels for public debt (which would be the anchor of fiscal policy); the irreversible character of the mandatory ceilings; and the transition between the NFR and the new model. Additionally, it would be necessary to establish specific rules in the LRF to discipline procedures related to, for example, how to deal with inflation or the introduction of escape clauses regarding the fiscal targets and expenditure ceilings in the event of a severe economic crisis.

In this hypothesis, the federal Constitution would have to approve the MTFF/MTEF framework before 2024 (for effectiveness from the year 2027 onwards), because the Fiscal Targets Annex of the draft LDO for 2025 would need to implement the mandatory expenditure ceiling for 2027, as well as the indicative ceiling for 2028. With the constitutional change, the estimation of the 2025 and 2026 ceilings would still be according to the current NFR rules, but the ceiling for 2027 would already be mandatory, according to the new framework. In other words, the maximum expenditure for 2027 would be defined in 2024 (as soon as sanctioned the draft LDO). The ceiling for 2028 would be indicative, serving only to guide the expectations of the agents involved.

A crucial aspect of the MTFF/MTEF framework is that once the LDO approves a mandatory expenditure ceiling, there should not be any further changes, not even by subsequent LDOs or the budget laws themselves.[18] Following the previous example, illustrated in Figure 13, the LDO for 2026 could not change the mandatory ceiling for 2027 (already defined in the previous year). Nevertheless, it would determine the mandatory ceiling for 2028 (which in the LDO 2025 was indicative), change (or not) the indicative ceiling for 2029 and incorporate 2030 as a new year, with an indicative ceiling.

Figure 13. Transition from the New Fiscal Regime to a medium-term fiscal framework and medium term expenditure framework: Global expenditure ceiling

LDO 2025			
2025	2026	2027	2028
t	t+1	t+2	t+3
NRF	NRF	Mandatory	Indicative
			Reserve

LDO 2026			
2026	2027	2028	2029
t	t+1	t+2	t+3
NRF	Fixed in 2024	Mandatory	Indicative
			Reserve

LDO 2027			
2027	2028	2029	2030
t	t+1	t+2	t+3
Fixed in 2024	Fixed in 2025	Mandatory	Indicative
			Reserve

LDO 2028			
2028	2029	2030	2031
t	t+1	t+2	t+3
Fixed in 2025	Fixed in 2026	Mandatory	Indicative
			Reserve

A relevant question concerns how to act during budget execution if the expenditure ceiling, set three years in advance, proves to be too high in regard to the fiscal target or, on the other hand, below what could be spent without compromising the fiscal target and the gross debt trajectory. In the first case, the solution could be the adoption of measures that positively affect revenues (as practiced in Sweden), or the imposition of limits on the budgeted discretionary expenditures, as is usually done in Brazil (less desirable, as it affects the predictability of resources, a benefit that the MTEF seeks to provide managers).[19] In the second case, offsetting higher than expected fiscal results can occur when setting fiscal targets for future years. Exceptionally, it could supply some very specific repressed demand, as long as the path of the debt/GDP ratio remains in line with expectations.

Proposals to improve the medium-term allocative process in Brazil

Another more complex step in the progress of the Brazilian budget process would be to complement the MTFF with the programming of medium-term expenditures. The MTFF ends with the fiscal issue, by setting a global expenditure ceiling compatible with the public debt sustainability. On the other hand, the MTEF deepens the medium-term analysis by introducing another dimension, one that deals with the allocation of public resources. Similar to the way it was carried out until the year 2000 in Sweden, the MTEF could be an annex to the LDO, allowing its construction on an annual rolling basis, with a fixed time horizon. In this way, the implementation of the MTEF would not require a new budget instrument.

In the Brazilian federal government, a pluriannual plan (PPA), provided for in the federal Constitution, should allocate, at least officially, the public resources in the medium term. However, despite having taken on several different formats since presented for the first time in 1990, the PPA has never managed to become a real reference for the allocation of public resources. Some countries that adopt an MTEF use instruments similar to development plans (not always as comprehensive and submitted to parliament as the PPA). However, most often the medium-term planning happens according to strategic sectoral priorities.

In several countries, as mentioned above, the allocation of resources can occur through the introduction of subceilings, specific by ministry, area, sector, function or programme (the sum of subsections being equal to or less than the global expenditure ceiling). Finland and the United Kingdom (and until recently Portugal) distribute the global ceiling according to their ministerial structure. Belgium, Japan and Mexico distribute resources among economic categories. Austria, Australia, Canada, France, the Netherlands and

Sweden are examples of countries that allocate resources by government functions, programmes or areas.[20]

The option by programme would have the advantage of allowing greater congruence between the allocation proposal and the public policy to be developed. However, except for the current PPA, Brazil usually has a greater number of governmental programmes than other countries, which would make it difficult to use them as a means for distributing expenditures. The option by ministry would, on the one hand, facilitate the allocative analysis, but on the other hand it would face the disadvantage of volatility, as the administrative structure in the Brazilian federal government usually varies greatly from one government to the next.

The Brazilian budget process has never used allocation by function or by sector. In the case of the function classification, a very stable structure over the years, there would be the additional disadvantage of having to perhaps deal with a high number (28) of government functions (just as the 27 expenditure areas used in Sweden seem elevated). Introducing subceilings by sector (such as infrastructure, economic, social, etc.) would facilitate the prioritisation of specific sectors of public administration; it would also represent a major challenge, both in terms of defining the sectors and because they would be transversal to the institutional structure management.

Therefore, there remains the allocation by expenditure area, as done in Sweden. An advantage of establishing subceilings by thematic area would be its relative stability, since the structure by areas usually remains unchanged, even when there are changes in the organisational structure of the government. Another advantage lies in the fact that the joint plans, public budgets and the Control Committee organise the draft budget by thematic area. As of 2006, the Control Committee started to split the draft budget, for purposes of assessment, into 10 thematic areas; it was raised to 16 in 2015.[21]

The MTEF would have to review this division into 16 thematic areas, as consideration should be given to other aspects (in addition to parliamentary interest in assessing the draft budget), such as the affinity and independence of the areas. For example, the thematic area that encompasses the legislative and judiciary branches, the Public Prosecutor's Office, the Public Defender's Office, the Presidency and the Ministry of Foreign Affairs would need to be split, given that for managerial purposes these autonomous branches and entities should each constitute a specific subceiling. Furthermore, there would be a need to make explicit the public security theme. Merging other areas according to their affinity would compensate for these and other additions, and prevent an excess of thematic areas (preferably, a maximum of 20 areas; otherwise the MTEF would be too plastered).

With the fiscal constraint, the expenditure ceiling and the estimated future costs of public policies (from both the baseline and the new initiatives), the subceilings by thematic area could be defined one year in advance − the subceilings for the subsequent years being of indicative nature only. For example, as shown in Table 10, the introduction of medium-term fiscal rules from 2027 onwards would require the draft LDO 2027 to include in its Fiscal Targets Annex the expenditure subceilings for 2027, its reference year and the subceilings for each of the years 2028-30. The subceilings defined for 2027 would be mandatory; that is, the maximum amount that each thematic area could spend in 2027 would already be defined in 2026 (as soon as was sanctioning the LDO). The subceilings from 2028 to 2030 would be indicative, serving to guide expectations of sectorial and subnational agents.

For comparative purposes, we have seen that in Sweden, since the year 2000, the draft budget itself defines the subceilings. The proposal presented for Brazil, on the other hand, considers the previous Swedish arrangement, by which Fiscal Policy Law defines the subceilings, constraining the draft budget. The proposal also considers the practice of France, where the subceilings are mandatory two years in advance and approved by parliament. In Brazil, as an intermediary solution, the subceilings could be mandatory only between the approved LDO and the respective draft budget (submitted to Congress a few months later). As a consequence, the executive branch would have to comply with the subceilings by

thematic area set by the National Congress in the draft budget, which would reinforce the attributions (and accountability) of the legislative branch in the allocation of public resources.

Table 10. Transition from the New Fiscal Regime to a medium-term fiscal framework and medium term expenditure framework: Expenditure subceilings, by area

LDO 2025					LDO 2026			
2025	2026	2027	2028		2026	2027	2028	2029
t	t+1	t+2	t+3		t	t+1	t+2	t+3
NRF	NRF	Indicative	Indicative		NRF	Indicative	Indicative	Indicative

LDO 2027					LDO 2028			
2027	2028	2029	2030		2028	2029	2030	2031
t	t+1	t+2	t+3		t	t+1	t+2	t+3
Mandatory	Indicative	Indicative	Indicative		Mandatory	Indicative	Indicative	Indicative

The importance of making it mandatory at this stage of the budget preparation comes from the perception that spending allocation decisions, whether to increase or cut expenditures, although based on technical analysis, are of a political nature. The LDO, by defining mandatory subceilings, would be fulfilling its allocative macro-fiscal function. For example, assuming that the legislative and judiciary branches each constitute a specific thematic area, the subceilings defined in the LDO would discipline their internal processes of preparing the budget proposal and avoid an often-conflicting relationship between these branches and those responsible for budgeting within the executive branch. Only the legislative branch itself could change the subceilings thus established (as long as the global ceiling is respected), as proposed by the Joint Budget Committee when the draft budget is appreciated.

It is important to consider mechanisms to mitigate excessive rigidity, since the global ceiling would be set three years in advance of budget execution and the subceilings by thematic area one year in advance. A possible solution would be to introduce some form of flexibility in the allocation of resources by thematic area. Sweden and other countries partially solved this by not distributing the total global ceiling set for each financial year among the different thematic areas (budgetary margin). For this purpose, a part of the global ceiling should constitute reserves, calculated as percentages of the ceiling, increasing the more distant they are from the reference year. Some countries distinguish the reserves in two parts, to meet changes: 1) in the economic situation, which can affect differently the thematic areas; and 2) in public policies, resulting from a new political orientation, either by the same government or by a new one.

Finally, a brief consideration of the degree of allocative rigidity in Brazil. As known, public finances in Brazil present a high level of earmarked revenues and mandatory expenditures. According to the federal government's own data, laws determined 94% of the allocation in the draft budget for 2021. When the focus of the budgeting process is only the reference year, that is the short term, there is a smaller interest in proposing changes to the legislation that causes the rigidity, since the gains in flexibility tend to occur in the following years. When the focus of the budgeting process is the medium term, the interest in introducing or proposing legislative changes that make feasible the subceilings by thematic area tends to be much greater, incorporating gains in flexibility into the model. Therefore, an MTEF can clearly expose the evolution of expenditures associated with different public policies *vis-à-vis* the fiscal space available, highlighting the necessary measures to make the subceilings feasible over the years.

In the case of Brazil, the introduction in the legal framework of a requirement for periodic spending reviews could help address the issue of prioritising expenditures, including the mandatory (or legislated) ones. The most important aspect would be to involve from the outset the National Congress, the forum responsible for the appreciation and approval of eventual proposals to change the legislation. A comprehensive spending review could be included in the draft LDO formulated in the last year of the presidential mandate

(with the possibility of forwarding selective reviews in the previous years), in which conclusions, recommendations and, when relevant, proposals for changes in the legislation to be considered by the National Congress could be included. This periodicity is convenient, as it would coincide with the beginning of a new electoral cycle, allowing, eventually, the presidential candidates to publicly debate the proposals.

Conclusion

With only a precarious fiscal scenario, there is no discussion in Brazil about the medium-term impact of existing public policies, nor of how they consume the fiscal space available for subsequent years. Perhaps the economic authorities lack the necessary technical conviction about the importance of preparing an MTFF/MTEF and are not aware of how developed countries (and several developing ones) started using this type of instrument. The fundamental change is to shift the focus of the budgeting process from the short term to the medium term, directly affecting the allocation of public resources.

Countries that have been successful in implementing an MTEF had the primary objective of improving the resource allocation decision-making process by considering the cost in the medium term of public policies. Although the MTEFs of different countries share the same methodology, in practice the model varies considerably, with different levels of rigidity and sophistication. Hence, the importance of, when considering the possibility of introducing an instrument in Brazil that will transform the budgeting process, designing an MTEF that fits the country's needs.

In this sense, this article presented and proposed a path for the Brazilian federal government regarding the most important aspects of an MTEF, such as the time horizon, the mandatory or indicative character of ceilings and subceilings, how to divide the ceiling into subceilings, and the role of Congress. However, before the adoption of an MTEF, decisions are required on other aspects of the model (not covered here in-depth), such as the coverage, the level of detail of the expenditure programming, how to deal with inflation, the concept of debt to be used as an anchor and the constitution of reserves. As in some countries that introduced an MTEF, a good recommendation is to test these aspects for some years as an internal practice of the executive branch before fully implementing the instrument.

From the moment that the current rule has fulfilled its main objective, that is, to bring the amount of primary expenditure to levels compatible with the sustainability of public debt, an MTFF/MTEF would be a better alternative to guide fiscal policy than the current expenditure ceiling rule. Having achieved its objective, whether in 2027 or sooner, the implementation of an MTFF/MTEF framework would maintain fiscal rigidity in the medium term. At the same time, it would have the advantage of being flexible after the period in which the ceilings are mandatory (t+2). Thus, as it has a shorter time horizon and a rolling basis, it would allow correcting the course of fiscal policy in the medium term, as the economic indicators evolve.

Furthermore, both the government's technical area and parliamentarians in Congress would feel the benefits of having an MTEF conducting the Brazilian federal government's accounts. For example, exposure of data that demonstrate a possible degradation of the public accounts in the medium term could provoke a public debate about the necessary corrective measures, with gains for the society as a whole. Information about the evolution of the government's accounts in the following years would also be much more available to Congress, allowing it to anticipate its decisions and calibrate their financial impact according to the country's fiscal limitations.

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Notes

[1] The federal Constitution determines that proposed amendments to the draft budget indicate the expenditure to be annulled in a corresponding amount. However, the National Congress usually uses a flexible interpretation of a constitutional paragraph, which allows for the correction of errors or omissions to increase the revenue estimation in the draft budget, thus financing new expenditures included by amendments.

[2] A spending review can be classified as an efficiency review (focused on the economy through greater efficiency) and/or as a strategic review (focused on the economy obtained by reducing services or transfers). It can also be selective, when it focuses on a specific list of topics to be reviewed (decided from the beginning of the process), or comprehensive when it is not limited *ex ante* by any list of topics and aims to review expenditures in greater depth.

[3] Despite adopting a unicameral parliamentary system, there are evident similarities between the Swedish and Brazilian fiscal-budgetary processes. In both countries, budgeting takes place in two distinct stages, with the budget law being preceded by a draft law on budget guidelines presenting the macro-fiscal scenario (submitted to parliament on 15 April and approved by mid-year).

[4] These and other aspects of the Swedish macro-fiscal framework, which can be read in more detail in Government Offices of Sweden (2018[2]) and Tollini (2018[3]), have influenced economic governance reforms in several European Union countries.

[5] With a change in government, which involves a reorientation of economic policy, or in the event of a crisis with far-reaching economic consequences, the government can propose a change to the set level of the expenditure ceiling. The Riksdag then decides on the change.

[6] The legislation does not prevent the Riksdag from changing the expenditure ceilings in subsequent years, but it does require the government take all of the necessary measures to prevent the ceiling from being breached, including forwarding any legislative proposals it deems necessary. The understanding that permeates parliament is that the ceiling should be non-reversible and, as a consequence, there is usually no change in the spending ceiling proposed by the executive branch.

[7] In this way, by voting on a whole package of proposals instead of on a single issue in the budget, it is historically rare for the opposition parties to form a majority to approve the amendments, either in the Finance Committee, the sectoral committees or parliament.

[8] Wehner (2007, p. 324[4]) shows that from 1985 until before the reform, the Riksdag increased budgeted expenditure every year and that after the reform, the parliament only increased the budgeted expenditure one year (and the number of amendments fell dramatically).

[9] From 2007 to 2019, the target was 1% of GDP (excluding social security), on average, over the 8-year economic cycle, and from 2019 it has been lowered to 0.33% of GDP in order to accommodate pressures arising from increasing expenditures with refugees.

[10] Law No. 4.320 of 1964, which introduced budgeting and accounting rules, marks the beginning of the current regulatory framework for Brazilian public finances.

[11] It is interesting to note that the institution of new fiscal rules in Brazil usually follows the economic cycle, occurring after acute economic crises.

[12] Partially regulated by the Fiscal Responsibility Law of 2000, and by Federal Senate Resolution No. 48 of 2007.

[13] Although the law requires these multiple and possibly conflicting targets, in practice only the primary result and expenditure ceilings have been considered.

[14] Personnel expenditures were already limited, starting with Complementary Law No. 82 of 1995, and later by Complementary Law No. 96 of 1999.

[15] As in Sweden, the fiscal framework proposed here would benefit from the existence of an independent fiscal institution that validates and gives credibility to the economic parameters and estimates adopted by the executive branch (in Brazil, the Independent Fiscal Institution of the Senate has already been satisfactorily performing this role).

[16] The NFR has a duration of 20 years, but after the 10th year of implementation, the indexation criteria can be reviewed by Congress based on a presidential proposal.

[17] An escape clause established in the NFR was used to allow for additional expenditures in 2020 related to the COVID-19 pandemic, which means that the 2021 expenditure ceiling remains unchanged, although the relation between gross debt and GDP increased roughly from around 80% to 100%.

[18] As in Sweden, changes to the mandatory ceilings could be accepted if proposed in the first months of a new government and approved by Congress.

[19] Favouring a possible adjustment on the revenue side does not mean an incentive to increase the size of the state, since the overall expenditure for the year is fixed. Additionally, as the MTEF has a rolling basis, compensatory adjustments could be introduced in subsequent years.

[20] See Cangiano (2017[5]).

[21] See (in Portuguese): https://www2.camara.leg.br/legin/fed/rescon/2015/resolucao-3-25-setembro-2015-781582-publicacaooriginal-148198-pl.html.

Budgeting in Bulgaria

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This review discusses the significant progress made since the last OECD budget review of Bulgaria in 2009. It begins with a discussion of the institutional and legislative framework for budgeting before addressing fiscal policy and medium-term planning. It then turns to the state budget formulation and execution before discussing transparency and openness in budgeting. It concludes with a discussion of parliament's role in the budget process and external oversight. Recommendations are made for each of these topics.

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This review was undertaken in 2019 and does not take into account of any developments after that year.

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Overview

The OECD carried out a first review of Bulgaria's budget system in 2009. The review noted that the Bulgarian budget preparation process was being modernised and that the 2009 budget process exhibited many of the modern budgeting techniques found in OECD countries, such as top-down budgeting, multi-year budgeting perspectives and the use of performance information. However, the 2009 review noted that the real challenge for Bulgaria was to make the modern practices work by implementing them effectively and thoroughly.

The Bulgarian budget system has remained very stable since then and significant progress has been achieved in the ten years between the previous review and the present review in many of the areas covered by the *OECD Recommendation of the Council on Budgetary Governance* (OECD, 2015[1]). The most significant reform of the last decade has been the establishment of a sustainable medium-term budgetary framework, which is underpinned by a set of strong and clear fiscal rules. These rules were adopted to ensure that Bulgaria would achieve full compliance with the new rules of the European Union's (EU) economic and fiscal surveillance, which were strengthened in the wake of the 2008 financial crisis. They have also been of particular importance because they have helped to deliver enhanced fiscal discipline in recent years. The budgetary aggregates since 2013 highlight the government's strong commitment to fiscal prudence in that time.

At the time of the *OECD Budget Review of Bulgaria* in 2009, Bulgaria did not have a legally entrenched fiscal rule and the fundamental guidelines for fiscal policy were established by coalition agreements. Although these agreements worked well and in the 2008 Convergence Programme Bulgaria was able to report full compliance with the EU fiscal criteria, the introduction of the fiscal rules enhanced fiscal discipline by establishing a set of obligatory targets that must be met by the authorities in accordance with the law.

Fiscal rules help ensure fiscal discipline, but they are not sufficient in themselves and tools and processes must be put in place to ensure that the rules are respected. Prior to 2014, procedural reforms were introduced in an ad hoc manner through the annual budget law. In response to concerns about the sustainability of the public finances, it was decided that the budget framework needed to be changed significantly, with a far greater emphasis on a medium-term approach underpinned by fiscal rules – to be applied by central and local authorities – that would provide the overarching framework within which the budget would be formulated.

A new organic budget law, the Public Finance Act (PFA), was drafted with the purpose of achieving this objective. Its enactment was intended to achieve a sustainable and predictable medium-term budgetary framework that would ensure more efficient allocation and management of public resources while supporting the implementation of prudent fiscal policies and respecting EU reference thresholds for the budget deficit and the government debt ratio. The PFA also aimed at providing an overarching framework of fiscal sustainability within which the budget process must be implemented. Furthermore, along with the Constitution, it provided that the institutions involved should have clear and well-defined roles.

The PFA has succeeded in establishing a medium-term budgetary framework with a strong emphasis on promoting fiscal discipline. The positive impact of the new framework can be seen by considering the positive evolution of the debt and general government balance to gross domestic product ratios between 2013 and 2018, although it must be noted that these improvements have occurred in a time of economic buoyancy.

A realistic medium-term budgetary framework cannot exist without realistic forecasting. In order to ensure realistic macroeconomic forecasts, the PFA requires the Ministry of Finance to compare its macroeconomic forecasts with those of the European Commission and explain any significant deviations. It also provides that the forecasts may be compared with those of other independent institutions. This contributes to a prudent stance on forecasting which underpins the sustainability of the public finances.

The PFA also provides a basis for developing a system of programme budgeting by introducing the concept of programme classification and for increasing transparency and accountability through non-financial performance information on the basis of key indicators to measure actual results achieved. Although the quality of non-financial information in programme budgets is increasing, the actual impact of performance information on the allocation of resources in the formulation of budgets has been weak so far.

The authorities have also widened the scope and content of the budget documentation in recent years. Apart from the greater emphasis on a programme presentation of the budget, the medium-term budgetary framework contains information on budgetary planning, macroeconomic and budgetary forecasting, the main assumptions that underpin projections, the priorities of spending policies, as well as the sustainability of the public finances and the main fiscal risks.

With regard to independent institutions, the establishment of the Fiscal Council in 2016 is another important recent initiative. The Fiscal Council was established by the Fiscal Council and Automatic Corrective Mechanisms Act of 2015. In its first three years, it commented on the medium-term budgetary framework and annual budgets, and issued its own reports on topical issues. Although the Fiscal Council itself considers its mandate to be quite restricted, nevertheless, its establishment as an independent institution that provides external scrutiny over fiscal and budgetary policy is an important development.

Overall, Bulgaria has made impressive progress in adopting good international practice with regard to budgetary governance. However, the annual budget cycle is complex and resource-intensive in that it requires several updates to the medium-term plans, in the spring and autumn. Although this is not a problem unique to Bulgaria within the EU, the Ministry of Finance should explore options to streamline processes, including conducting consultations and dialogue on new tax and spending measures with first-level spending units and representatives of the non-governmental sector earlier in the budget cycle.

In addition, some elements of Bulgaria's recent reform agenda are still at a developmental stage and they will need to be further consolidated and improved in light of the experience gained from their implementation. Significant challenges in particular remain concerning tools and processes for resource prioritisation and allocative efficiency:

- the links between the government's strategic policy priorities expressed in the Law on Strategic Planning and medium-term fiscal planning are weak as a result of the use of different classifications regarding the scope of sector policies, time horizons, etc.
- trade-offs between policies and programmes do not appear to be systematically informed by evidence from performance indicators or spending reviews
- the multi-annual rollover of the medium-term plans creates little incentive for realistic planning
- the large degree of flexibility available to the executive for modifying resource allocation in the course of budget execution further undermines medium-term planning.

Finally, the National Assembly's role in the budget process could be strengthened by increasing the time frame for debating and approving the state budget to three months, which is a standard for good practice. This provides more time for analysis and discussion in parliamentary committees and for conducting consultations with various stakeholders. While it has access to analyses from the Fiscal Council, the National Assembly should consider establishing an independent research body associated with the National Assembly to help parliamentarians and parliamentary committees by providing analysis and research on budget, economic and financial matters.

Progress to date on the sustainability of the public finances provides a strong basis for ensuring that additional reforms to address these remaining challenges can be successful. Delivering such improvement will be key in successfully addressing future fiscal challenges, such as reallocation of spending to address the needs of an ageing population.

Table 11. Budgeting in Bulgaria and the *OECD Recommendations of the Council on Budgetary Governance*

Budget principle	Bulgaria	Reference
1. Budgeting within fiscal objectives	Bulgaria has a comprehensive set of fiscal rules, which are compliant with EU requirements. Top-down budgeting is well understood and well-established so that overall fiscal discipline is now a primary factor in budgeting.	Fiscal policy and medium-term planning
2. Alignment with medium-term strategic plans and priorities	The medium-term dimension of budgeting is strong. The multi-annual rollover of the medium-term budgetary forecast (MTBF), however, creates little incentive for realistic planning. In addition, the links between strategic policy priorities and medium-term fiscal planning are still weak.	Fiscal policy and medium-term planning
3. Capital budgeting framework	Capital investment is prioritised according to the implementation of sectoral strategies adopted by the government. There is, however, no standard methodology for appraising and prioritising capital investment projects based on value for money, which could also serve as a reference point for *ex post* evaluations.	State budget formulation and execution
4. Transparency, openness and accessibility	Budget documents and accounts are published regularly through the budget cycle. A Citizen's Budget as well as other reader-friendly documents are prepared annually. The quality of the commentaries on the budget execution, however, could be improved, e.g. in terms of explaining transfers.	Transparency and openness in budgeting
5. Participative, inclusive and realistic debate	The National Assembly is able to engage in the budget process both *ex ante* and *ex post*, but its involvement and analytical capacities should be strengthened. Programme and performance budgeting have helped to provide more information on the government's key policy priorities. Although Bulgaria conducts public consultations on certain policy changes, there are, however, limited opportunities for citizens to engage in the budget process, although the National Assembly encourages public participation as part of its scrutiny of the state budget proposal.	Parliamentary involvement and external oversight
6. Comprehensive budget accounting	Budget documents and accounts are comprehensive in that they cover not only the so-called Consolidated Fiscal Programme, but also report most assets and liabilities in compliance with the national accounting standards for the public sector. Information is also provided on cash payments and commitments for the state.	Transparency and openness in budgeting
7. Effective budget execution	Tight controls are exercised on budget execution to ensure compliance with budget appropriations and fiscal rules. A treasury single account covering all entities within the Consolidated Fiscal Programme except municipalities is maintained in the central bank. The level of power granted to the Council of Ministers in reallocating appropriations is, however, very large, with limited scrutiny of budget execution by the National Assembly.	State budget formulation and execution
8. Performance, evaluation and value-for-money	Programme and performance budgeting is well-developed at the level of first-level spending units (including key performance indicators) and pilot spending reviews have been implemented. Going forward, greater use needs to be made of the evidence collected, to inform both annual and medium-term budgetary decision making.	State budget formulation and execution
9. Fiscal risks and long-term sustainability	A number of fiscal risks are monitored and reported in the MTBF. Further efforts are needed to more systematically identify fiscal risks and explain mitigation strategies. Fiscal sustainability is assessed annually. Fiscal risks and long-term sustainability challenges could also be more rigorously factored into fiscal policy and annual budget decision making.	Fiscal policy and medium-term planning
10. Quality, integrity and independent audit	An independent Fiscal Council and supreme audit institution provide external oversight on budget forecasting and *ex post* reporting, respectively. The capacities of the recently created Fiscal Council, however, need to be strengthened and the supreme audit institution could develop value-for-money activities to support the government's move towards a more outcome-oriented budgeting system.	Parliamentary involvement and external oversight

Context for this review

Political landscape

Under the terms of the 1991 Constitution, Bulgaria is a parliamentary republic. The head of state is the President of Bulgaria, who is directly elected for a five-year term, with the right to one re-election. The President schedules national referenda and elections for the National Assembly, serves diplomatic and other functions, and promulgates and can veto laws (although parliament can overturn the President's veto with a simple majority vote).

Executive power lies mainly with the Council of Ministers. It is composed of the Prime Minister, deputy prime ministers and ministers. Its functions are mainly to propose and oversee the implementation of policies on both domestic and foreign issues, in accordance with the Constitution and laws of Bulgaria enacted by the National Assembly. The Council of Ministers must resign if the National Assembly passes a vote of no confidence in the Council or Prime Minister.

The National Assembly, a unicameral body, consists of 240 deputies elected for 4-year terms through a mixed electoral system.[1] The parliament has the right to elect and dismiss the Prime Minister and line ministers, to enact laws, to approve the budget, and is tasked with the ratification of international treaties and agreements.

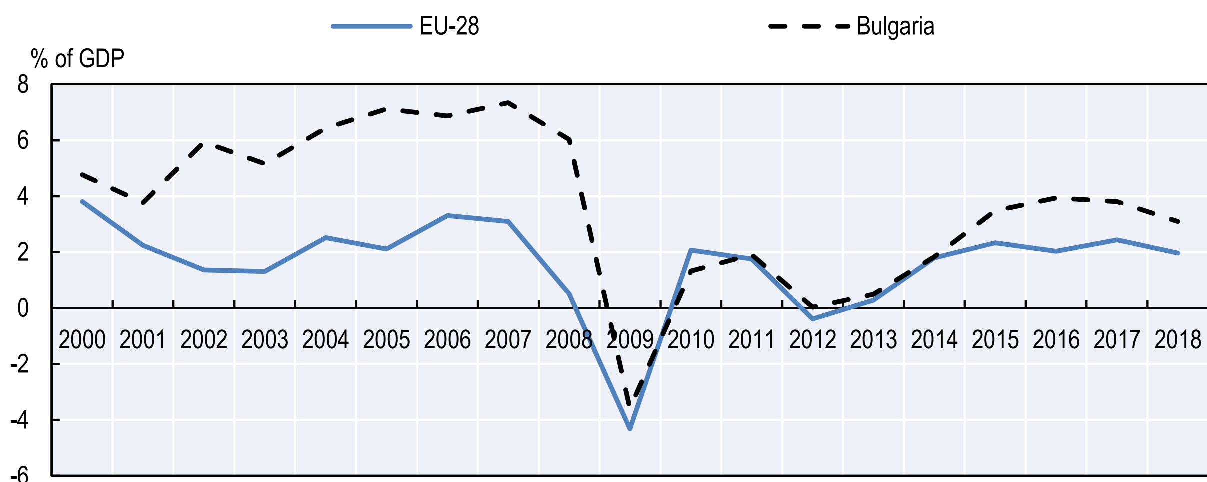
For the last decade, Bulgaria's political system has been dominated by two parties of the centre-left and centre-right. There is also a relatively large number of smaller political parties in Bulgaria. Most governments have been run by a coalition of one major party and smaller ones, which has generated political instability in recent years. Consequently, there have been three consecutive early general elections in 2013, 2014 and 2017.

Recent economic developments

Since the collapse of the communist regime in 1991, the Bulgarian government has undergone a transition from a centralised and planned economy to a more liberal, open and market-driven one. Structural and institutional reforms, such as the introduction of the Currency Board in 1997, the privatisation of state-owned enterprises and the adoption of more favourable investment circumstances, as well as trade liberalisation, along with EU accession in 2007, triggered a decade of exceptionally high economic growth and improved productivity, incomes and living standards, with annual average gross domestic product (GDP) growth of 5.9% from 2000 to 2008.

After a sharp contraction in 2009, GDP growth in Bulgaria averaged 1.1% annually between 2010 and 2014, but economic growth has accelerated since 2015, with the GDP growth rate above 3% in 2018, well above the EU average of 2%. This was driven primarily by strong domestic demand, increased exports and faster disbursement of EU Structural Funds.

Figure 14. Real GDP growth rate, Bulgaria, 2008-18

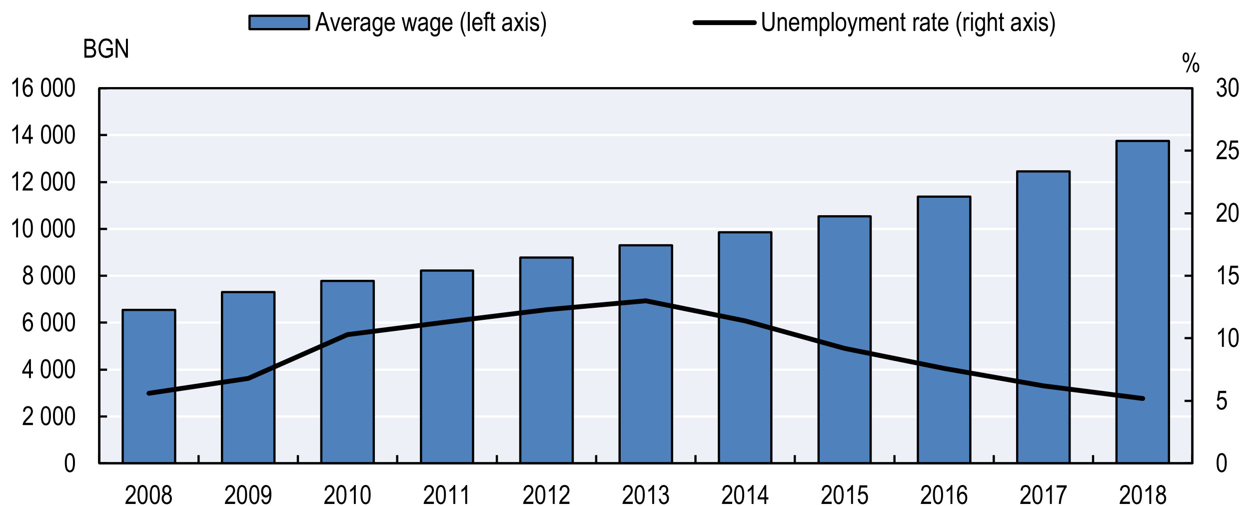


Source: Eurostat (2019[2]), *National Accounts Database*, https://ec.europa.eu/eurostat/web/national-accounts/data/database (accessed 19 July 2019).

Concerning living standards, the annual average wage increased by 9.4% per year on average from 2008 to 2018 and total expenditure of households also increased, spurred by declining interest rates and wage increases. The unemployment rate has been falling, from above 10% in the early 2010s to 5.2% in 2018, down from 6.2% in the previous year. Average annual inflation, which was negative between August 2013 and 2016, rose to 2.6% in 2018, reflecting a rise in global oil prices and household disposable incomes, together with an increase in unprocessed food prices due to the bad harvest.

Despite attractive investment conditions, such as cheap labour, challenges remain. The main risks stem from a growth slowdown of trading partners, rising protectionism, the retreat from multilateralism and fast wage growth (IMF, 2019[3]). In addition, Bulgaria's income per capita is still the lowest in the EU, at only 50% of the EU average in 2017, and the negative population growth rate continues to weigh heavily against future prospects. Productivity will need to grow by at least 4% per year over the next 25 years if Bulgaria is to catch up to average EU income levels.

Figure 15. Average wage and unemployment rate, Bulgaria, 2008-18

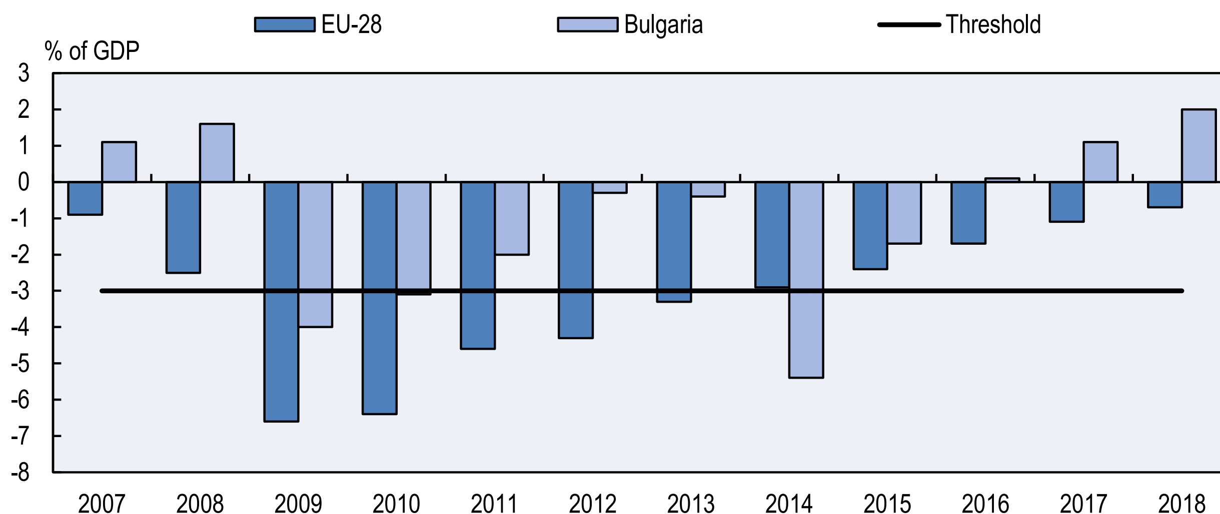


Sources: National Statistical Institute (2019[4]); Eurostat (2019[5]).

State of public finances

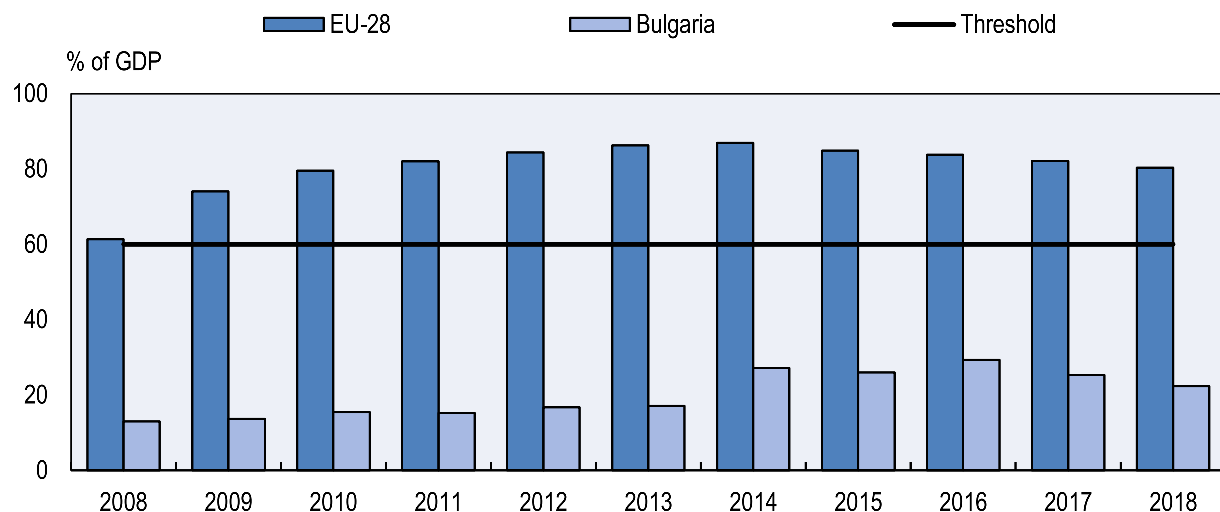
Bulgaria exceeded the EU deficit threshold of 3% of GDP in 2009 in the wake of the financial crisis and in 2014 when Corporate Commercial Bank (CCB), the country's fourth largest bank, collapsed. However, quickly, in 2016, the fiscal balance returned to a modest surplus to reach 2.0% of GDP in 2018 (Figure 16). At 22.3% of GDP in 2018, the government debt-to-GDP ratio is one of the lowest among EU countries (Figure 17). Positive fiscal status in Bulgaria is due basically to improved government revenues based on robust economic growth. The general government revenue in 2018 increased by 32.9% compared to 2014.

Figure 16. General government fiscal balance, Bulgaria, 2007-18



Source: Eurostat (2019[2]), *National Accounts Database*, https://ec.europa.eu/eurostat/web/national-accounts/data/database (accessed 19 May 2020).

Figure 17. General government debt, Bulgaria, 2008-18



Source: Eurostat (2019[2]), *National Accounts Database*, https://ec.europa.eu/eurostat/web/national-accounts/data/database (accessed 16 June 2020).

Bulgaria's expenditure is relatively low compared to OECD countries. In the last ten years it has remained at around 36.9%, with the exception of 2009, 2014 and 2015. The biggest share of public expenditure in 2017 was accounted for by central government, at 24.1% of GDP, local government with 7.1% of GDP and the social security fund with 14.3% of GDP. The 2018 budget allocation by Classification of the Functions of Government (COFOG) shows that welfare and social protection constitutes 32.8%, followed by economic affairs (18.2%), healthcare (13.6%), and education (9.7%), whereas defence and housing/community amenity account for around 3%; environmental protection is at the bottom with 1.9% (Table 12).

Table 12. Bulgaria's budget allocation according to COFOG, 2018

	Budget (million BGN)	Portion
Total	40 088	100%
General public service	3 585	8.9%
Defence	1 245	3.1%
Public order and safety	2 720	6.8%
Economic affairs	7 315	18.2%
Environmental protection	768	1.9%
Housing and community amenity	1 156	2.9%
Health	5 441	13.6%
Recreation, culture and religion	852	2.1%
Education	3 872	9.7%
Social protection	13 132	32.8%

Source: National Statistical Institute.

Bulgaria intends to continue its prudent fiscal policy. The authorities aimed for a small cash deficit in 2019[2] and a balanced budget in subsequent years.[3] Another objective in the coming years will be to increase the quality of public spending so as to create a fiscal stimulus for the economy. The authorities intend to generate this stimulus through increases in expenditures on education and health, as well as increased capital expenditure (IMF, 2019[3]).

Institutional and legislative framework for budgeting

Institutional organisation

Administrative organisation

Bulgaria has a unitary system of government with three levels of government – the state, regions and municipalities – whose functions and responsibilities are defined in the Constitution. It also has a social security system, which has its origins in the social insurance model whereby independent institutions finance various benefits to workers by levying mandatory contributions on employers and employees.

The central administration consists of the Council of Ministers, ministries, state and executive agencies, state commissions, as well as a variety of other administrative structures created by law or by a decision of the Council of Ministers.

State agencies report to the Council of Ministers and usually cover an area for which there is no separate ministry; executive agencies are in charge of implementing specific policies and regulations; state commissions exercise monitoring and control over specific policy areas.

A number of extrabudgetary funds have existed in the past in Bulgaria. There were eight at the time of the 2009 OECD review. Today, the use of extrabudgetary funds is prohibited, but special accounts can be used only for managing resources from the EU and other donors and programmes. The main one is the National Fund within the Ministry of Finance, which is responsible for handling resources from the EU to beneficiaries according to all applicable EU legislation and requirements.

At the subnational level, the country is divided into regions, municipalities and districts. Each region is governed by a regional governor supported by a regional administration. The regional governor, appointed by the Council of Ministers, is responsible for implementing state policies within the region, protecting the national interest, the rule of law, public order and exerting administrative control.

Municipalities are the basic administrative territorial units of self-governance. They are legal entities and have their own budgets, but receive transfers from the state budget. Executive power at the municipal level is exerted by the mayor, who is elected for a four-year term.

A public institution, the National Social Security Institute, manages the benefits for sickness, maternity, unemployment, accidents at work and professional diseases, disability, old age, and death. Another public institution, the National Health Insurance Fund, administers medical care. Both are funded by contributions from employers and employees, but also receive transfers from the state budget.

Consolidated Fiscal Programme

In Bulgaria, fiscal policy has been managed for almost two decades at the level of the so-called Consolidated Fiscal Programme. It aggregates the following individual budgets:

- State budget, comprising the central budget, the independent budgets of the National Assembly and the judiciary, the budgets of the executive bodies, the budgets of the other state authorities and budgetary organisations at the central level. These budgets accounted for 33.2% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of public entities, which accounted for 2.7% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of 265 municipalities, which accounted for 13.9% of the Consolidated Fiscal Programme for 2018.
- Autonomous budgets of the two social insurance funds, which accounted for 38.0% of the Consolidated Fiscal Programme for 2018.
- Special accounts (including the funds for the management of the EU funds), which accounted for 12.2% of the Consolidated Fiscal Programme for 2018.

According to the Public Finance Act, all legal persons whose budgets and accounts are listed above are called “budgetary organisations”. The Consolidated Fiscal Programme has an institutional coverage that is broadly similar with the statistical concept of general government. Indeed, the general government includes all entities within the Consolidated Fiscal Programme, plus all legal entities controlled by the state and/or municipalities that do not form part of the Consolidated Fiscal Programme.[4]

As a general rule, autonomous budgets are approved not by the parliament, but by an independent administrative authority, e.g. the municipal council (the local parliament местния парламент) for municipalities and a board for the public entities. As further described below, the imperative of fiscal co-ordination within the Consolidated Fiscal Programme has, however, led to greater involvement of the Ministry of Finance, the Council of Ministers and the National Assembly in the process of ensuring compliance with the fiscal rules.

The budgets of the State Social Security and National Health Insurance Fund are approved by their own Board, in which representatives of the government, employers' organisations and trade unions participate. After this approval, they are presented to the Council of Ministers for their submission to the legislature and their adoption through separate laws. The executive and legislature should ensure consistency between the three budgets, both in general and as regards budgetary transfers between the state budget and the budgets of the social insurance funds.

Main participants in the budgetary process and budgetary organisation

The main players in the budget system are the Council of Ministers, the National Assembly, the Ministry of Finance, as well as the first-level spending units (or FLSUs). Lower level spending units engage in the budget system via their FLSU.

The Ministry of Finance is the central budget authority. Core budgetary functions are centralised in four directorates under the authority of one deputy minister, as follows:

1. the Budget Directorate is mostly concerned with fiscal policy, both medium term and annual, the budget projections of the Consolidated Fiscal Programme and the general government sector, co-ordination of budget legislation and methodology, programme budgeting, and training in the area of public finance
2. the State Expenditure Directorate is mostly concerned with monitoring the formulation and execution of the budgets of the FLSUs (see below)
3. the Local Government Financing Directorate is mostly concerned with the oversight of the subnational finances
4. the Treasury Directorate is responsible for the financial processes underlying the budget execution and accounting functions.

Other functions – e.g. debt management, preparation of the macroeconomic framework, co-ordination of the European Semester and member state's economic policies, the certification of the legality and propriety of spending of EU funds – are managed by directorates operating under the authority of another deputy minister. The 2009 OECD review noted that the organisational structure of the ministry created burdens for the FLSUs in that they had to work with multiple departments. Although the organisational structure of the Ministry of Finance has not changed, the authorities consider that the aforementioned burdens are decreasing, as one lead directorate is now tasked with issuing a single set of guidelines for all stages of the budget procedure.

For budgetary purposes, the heads of budgetary organisations are divided into first-level, second-level and lower level spending units. The term first-level spending unit, or FLSU, is actually defined in the legislation.

FLSUs are the main spenders within the Consolidated Fiscal Programme. They include the ministers, the prime minister (for the budget of the Council of Ministers), the chairman of the National Assembly (for the budget of the National Assembly), the Supreme Judicial Council (for the budget of the judiciary), the chairmen of some state agencies, regulatory bodies and other state authorities, and the managing authorities of autonomous organisations (for their budgets), as well as the mayors of municipalities.

Each of the FLSUs receives funds from the state budget and bears the responsibility for using and managing this funding in accordance with their policy objectives. They transfer some of these resources to second-level spending units that implement these policies.

Second-level spending units comprise a large range of public administrations with different legal status, such as schools, agencies or funds. Some second- and lower level spending units apply delegated budgets, which makes them relatively independent from the FLSUs in managing their budget.

Organic budget law

The 2009 OECD review noted that the Bulgarian budget preparation process was being modernised and that the 2009 budget process exhibited many of the modern budgeting techniques found in OECD countries, such as top-down budgeting, multi-year budgeting perspectives and the use of performance information.

However, the review noted that the real challenge for Bulgaria was to make the modern practices work by implementing them effectively and thoroughly. Moreover, the report noted that although the Constitution laid out a number of foundational budget principles and more detailed rules were provided in the State Budget Procedures Act,[5] there was no legislation in Bulgaria presenting an up-to-date and comprehensive set of fiscal and budgetary principles and procedures, as modernisation efforts were introduced in an ad hoc manner through the annual budget law. Importantly, Bulgaria did not have a legally entrenched fiscal rule and the fundamental guidelines for fiscal policy were established by coalition agreements.

The adoption in 2013 of a new and ambitious organic budget law, called the Public Finance Act, provided an answer to these concerns. Article 20 of the PFA establishes the key principles within which public finances must be managed, including universality, accountability, transparency, economy and sustainability. It enshrines past modernisation efforts in legislation, with, for example, the introduction of the concept of programme classification. It regulates the scope, structure and content of the medium-term budget framework and also integrates into the national legislative framework the obligations agreed in March 2011 by the European Council, which mandated, in particular, the implementation of new fiscal rules. The PFA was amended in 2016, following an impact assessment, and in 2017, when some of the provisions pointed out in the European Commission’s review on the degree of transposition of Council Directive 2011/85/EC into the national legislation of member states were refined.

In addition to the PFA, a number of other important legislations regulate specific financial operations, including:

- the Law on Normative Acts, which aims to improve the preparation and implementation of new legislation and policies through a number of measures, including impact assessment
- the Public Debt Act, which regulates the procedures under which borrowing is undertaken and ensures that it is consistent with the requirements of the PFA
- the Municipal Debt Act, which regulates the terms and procedures for the incurrence of municipal debt and for the issuance of municipal bonds, as well as the types of municipal debt
- a Government Ordinance on the Requirements to be met by Investment Projects Financed by Government Loans and Projects Applying for Financing by Government Guarantee, and the Procedure for their Consideration,[6] which was adopted in accordance with the Public Debt Act.

Overall, following the adoption of the PFA, the Bulgarian legislative framework for budgeting appears comprehensive. A single law underpins the principles driving fiscal policy and the budget cycle; the procedures required to ensure the preparation of the key budgetary documents; and establishes the roles and responsibilities of the key institutions responsible for ensuring the sustainability of public finances. There is now full compliance with EU Directive 85/2011 as well as follow-up actions in the event of any deviation from the fiscal rules. The act has also led to the provision of more information on the general government sector in budgetary documentation, more reliable and more detailed medium-term forecasts.

It also provides a legal and operational framework that facilitates broad compliance with the OECD *Principles of Budgetary Governance*. It must be noted, however, that with regard to actual implementation, there are a number of challenges and exceptions, which are discussed in more detail in the following sections.

Budget cycle

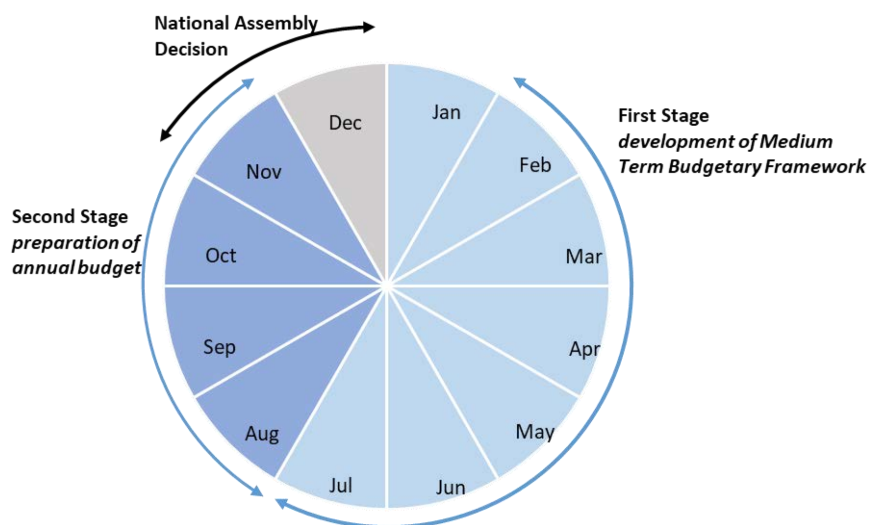
The reforms to the budget cycle introduced in Bulgaria in the 2000s were intended to introduce a top-down character to the budget cycle, anchored with a sound framework for fiscal policy. This approach continues to this day, although the budget cycle has been redesigned, with a move from a three-stage process resulting in the Medium-Term Budget Framework (MTBF) and main assumptions, a three-year budgetary framework with expenditure ceilings and annual budget being prepared separately into a more integrated two-stage process that is aligned with the European Union's Semester and "Two Pack" (Box 5).

Specifically, the first stage deals mainly with the procedures for developing the MTBF, which is the aggregate fiscal plan of the government and the three-year budget forecasts for the FLSUs. The first stage of the budget cycle is co-ordinated with the so-called European Semester of the European Union, which is the cycle of economic and fiscal policy co-ordination within the EU, and is part of its economic governance framework. This first stage of the budget cycle is discussed in more detail in the section "Fiscal policy and medium-term planning".

The second stage deals mainly with the preparation of the annual budget, which involves updating the MTBF and three-year budget forecasts prepared earlier during the budget cycle. This takes place during the second half of the year. In the European Semester, this is the cycle during which member states draw up their national budgets for the following year and are expected to reflect any recommendation agreed by the Council of the European Union. The second stage of the budget cycle is discussed in more detail in the section "State budget formulation and execution".

An annual budget procedure is adopted annually by the Council of Ministers no later than 31 January to specify reporting requirements, timelines, allocation of responsibilities, etc. for each of the two stages of the budget cycle (Figure 18).

Figure 18. Bulgaria's annual budget cycle



Notes: In March, first-level spending units (FLSUs) submit their budget forecasts for the next three years to the Ministry of Finance and the spring Medium-Term Budget Framework is approved by the Council of Ministers in April. Regarding the second stage, the FLSUs submit their draft budgets and updated budget forecasts to the Ministry of Finance. After consultations with the FLSUs, the Ministry of Finance prepares the draft state budget and the updated MTBF and submits them to the Council of Ministers. After their approval, they are submitted to the National Assembly until the end of October.
Source: Adapted from the Ministry of Finance.

Box 5. European Union: Basic rules of EU economic and fiscal surveillance

Basic rules of EU economic and fiscal surveillance

The Stability and Growth Pact sets a limit of 3% of gross domestic product (GDP) for general government deficit and 60% of GDP for public debt for all European Union (EU) member states. Member states can be placed in the Excessive Deficit Procedure if they have a general government deficit above 3% of GDP or a debt ratio above 60% that is not being reduced by at least 5% per year on average over three years. The preventive arm requires that member states set their own medium-term budgetary objectives in terms of the structural balance (corrected for cyclical deviations). In addition, the net growth rate of government spending must be at or below a country's medium-term potential economic growth rate, unless matched by additional discretionary revenue measures (the expenditure benchmark).

The Fiscal Compact

The Fiscal Compact is a treaty (Treaty on Stability, Coordination and Governance in the Economic and Monetary Union) outside EU law which obliges signatories to enshrine medium-term objectives in national law. Moreover, it stipulates that medium-term budgetary objectives should aim at a structural balance or a structural deficit of less than 0.5% of GDP in the medium term or up to 1% where the ratio of the general government debt to GDP is significantly below 60% and the risks in terms of long-term sustainability of public finances are low. In addition, it requires member states to establish an independent institution to monitor compliance with European fiscal rules as well as an automatic correction mechanism in case of deviations. All EU member states are obliged by this treaty.

The European Semester and the "Two Pack"

The European Semester cycle starts in November with the publication by the European Commission of a number of macroeconomic documents (the Annual Growth Survey, containing general economic and social priorities for the EU and policy guidance for member states; the Alert Mechanism Report, identifying macroeconomic imbalances and providing guidance for correction; the draft Joint Employment Report, containing analysis of the employment situation in Europe and policy guidance for member states; and the Recommendations for the Euro Area, containing policy guidance for the national dimensions of EU economic governance in the euro area). Prepared through discussions at ministerial level, the European Council considers the reports in February and March. In February, the Commission publishes a country report for each member state analysing its macroeconomic situation and progress with implementing the member state's reform agenda. In April, member states present their national reform programme (on macroeconomic issues) and their stability programmes (for euro area countries) or convergence programmes (for non-euro area member states) containing three-year budget plans. The Commission assesses these plans in May and presents a series of country-specific recommendations on macroeconomic and fiscal issues. These policy recommendations are discussed and endorsed by the European Council in July. According to the "Two Pack", member states of the euro area must submit draft budgetary plans for the following year by 15 October. The Commission assesses these plans against the requirements of the Stability and Growth Pact and provides outstanding macroeconomic recommendations in November.

Source: OECD (2019[6]).

Fiscal policy and medium-term planning

Fiscal rules

Discussions on establishing a fiscal rule in Bulgaria's national legislation started in 2011, when the authorities proposed a "Financial Stability Pact", including a rule that would improve the fiscal balance relative to GDP growth. In June 2011, after broad consultations, the parliament introduced a rule in the organic budget law limiting the deficit under the Consolidated Fiscal Programme to 2% of GDP on a cash basis and capping expenditure under the Consolidated Fiscal Programme at 40% of GDP starting in 2012.

When the PFA was drafted, the fiscal rules established by EU legislation were added to these national fiscal rules, including specifications of corrective actions in the event of deviations from targets. Bulgaria, consequently, operates now with a large set of fiscal rules, which can be segmented into deficit rules, expenditure rules and a debt rule as detailed below.

Deficit rules

- The deficit for the national concept of general government, the Consolidated Fiscal Programme, calculated on a cash basis, may not exceed 2% of GDP and if it does, the government is required to take corrective action until it returns to at least a balance of zero.
- The medium-term budgetary objective for the general government structural deficit, calculated on an ESA 2010 basis, shall not exceed 0.5% of GDP, except when the general government debt-to-GDP ratio is less than 40%, in which case it may be up to 1%, on the basis that the risks in terms of the long-term sustainability of public finances are low. Failure to meet the medium-term objective is permitted in exceptional circumstances, such as an economic downturn of more than 3% in real terms or an event outside the control of the government. A temporary departure from the medium-term budgetary objective for the structural deficit on an annual basis shall be allowed in the event of implementing major structural reforms with a major impact on fiscal sustainability, provided that the general government deficit does not exceed 3%.
- The general government balance, calculated on an ESA 2010 basis, shall be in balance and may not exceed 3% of GDP, and in the event of a deficit, the government must take steps towards reaching at least a balance.

Expenditure rules

- The maximum amount of expenditures under the Consolidated Fiscal Programme may not exceed 40% of GDP and if it does, corrective action must be taken in the following year.
- The annual growth rate of expenditure shall not exceed the reference growth rate of potential GDP unless the excess is matched by offsetting measures to increase budgetary revenue. The additional measures shall lead to a sustainable revenue increase and shall not be one-off. However, it may exceed the reference growth rate of potential GDP if the medium-term budgetary objective is exceeded and if the fiscal rule for the structural deficit is met.

Debt rule

- The general government debt-to-GDP ratio may not exceed 60% at the end of every year and if it does, corrective action must be taken.

All these fiscal rules have good theoretical justification. However, Bulgarian fiscal rules are complex, which may hinder their understanding by policy makers and transparency for the wider public, a challenge that is not unique to Bulgaria within the EU. There may be some scope, therefore, for considering simplification

options while keeping the three key objectives of the current set of rules: 1) containing public expenditures; 2) ensuring long-term fiscal sustainability of the public debt; and 3) allowing countercyclical fiscal policy.

Medium-term budgetary framework

The MTBF is the fiscal plan of the government, which brings together the macroeconomic and fiscal forecasts and defines fiscal targets in compliance with the national fiscal rules. It covers a three-year period and is updated at least biannually on a rolling basis, so that it constantly reflects the most recent evaluation of the macroeconomic environment, as well as any policy decisions.

The MTBF is prepared during the first stage of the fiscal year and forms the basis of the Convergence Programme formulated as part of the European Semester. The MTBF and the Convergence Programme are both approved by the Council of Ministers by the end of April at the latest each year. They are presented to the National Assembly for information – i.e. they are not submitted to a formal approval or vote – and published on the Ministry of Finance's website.

The updated MTBF is an update of the previous document, which reflects the impacts of changes in the macroeconomic environment, any new policies of the government as well as the Council of the European Union's recommendations from the follow-up review of the Convergence Programme and the National Reform Programme. It is laid out before the parliament with the draft state budget before 31 October of each year.

Finally, changes to the updated MTBF can be made in the event of a significant change by the National Assembly to the draft state budget, the Law on the Budget of the State Social Security and the Law on the Budget of the National Health Insurance Fund.

The biannual (or more) revision of the MTBF is a specific feature of the Bulgarian budget system. The fact that the revenue and expenditure forecast are reset twice a year has its benefits and challenges. As noted above, the main benefit is that the MTBF is constantly up-to-date with the latest economic and fiscal policy decisions of the government. The challenges are mainly that, as revenue and expenditures can be revised several times without any consequences, the MTBF provides relatively little certainty about future expenditure at either aggregated or detailed level.

For example, Table 13 shows that the initial revenue projections for 2018 were conservative in each of the last three MTBFs, with actual revenue being higher than originally projected. The unforeseen revenue was used to allow a mix of additional expenditure and debt reduction. Although this is consistent with Bulgaria's fiscal rules, it is not clear what policy changes led to such a significant increase of spending and this supports the perception that the expenditure targets in the MTBF are indicative, as further discussed below.

Table 13. Aggregate revenue and expenditure forecasts in the medium-term budgetary framework in Bulgaria

Million BGN

	2016-18	2017-19	2018-20	2018 actual
Revenue, grants and donations	35 347	36 509	38 214	39 651
% of GDP	37.2%	37.9%	36.2%	36.1%
Expenditure	36 337	37 509	39 314	39 516
% of GDP	38.2%	38.9%	37.2%	36.0%
Nominal GDP	95 055	96 338	105 609	109 695

Note: The assessment of the nominal GDP is periodically updated on the basis of notified recalculations of GDP reporting values following Eurostat methodological requirements.
Source: Ministry of Finance.

The forecasts underlying the MTBF are prepared by a variety of actors, as described in the following sections focusing on the preparation of the macroeconomic and expenditure forecasts. It should be noted that tax revenue forecasts are prepared by the Ministry of Finance's Tax Policy Directorate. They are essentially determined by the tax bases derived from the macroeconomic forecast. In recent years, revenue forecasts have been prudent and conservative and this has helped to ensure that the expenditure base remains tightly controlled.

Macroeconomic forecasts

Since the 2009 OECD review, the responsibility for preparing the forecasts was transferred from the Executive Agency for Economic Analysis and Forecasting, attached to the Ministry of Finance and headed by a political appointee, to the Economic and Financial Policy Directorate within the Ministry of Finance, reporting directly to a deputy minister of finance and headed by a civil servant. In addition, until 2013, the State Budget Procedures Act had only very general requirements (i.e. the Ministry of Finance to develop the budget forecast in accordance with macroeconomic analyses developed by its own and other budgetary institutions), but the PFA provides more detailed directions concerning the preparation of the forecasts.

Macroeconomic forecasting takes place twice a year, first in the spring to support the preparation of the Convergence Programme and the MTBF, and then in the autumn to underpin the formulation of the updated MTBF and state budget. In both the spring and the autumn, the Economic and Financial Policy Directorate prepares one preliminary and one official macroeconomic forecast. Preliminary forecasts are for internal analysis and discussion, while the official forecasts are published and must be finalised no later than 25 March and 25 September of each year.

Macroeconomic forecasts are prepared using a spreadsheet model in which elasticities and other required parameters are estimated using econometric equations, or which are calibrated based on estimates drawn from other sources. As reliable macroeconomic forecasting is a crucial prerequisite for successful medium-term planning, the PFA mandates that "forecasts should be prudent and conservative".[7] To comply with this requirement, the PFA regulates that the Ministry of Finance systematically compare its economic forecast with that of the European Commission and explain any major differences.

This approach has worked fairly well so far. However, current forecasting models do not allow full analysis of interactions among key economic and fiscal variables and could be improved. Since the autumn forecasting in 2019, the Economic and Financial Policy Directorate has used the macro simulation model. It should ensure that the simulation model is designed to be used for both macroeconomic and fiscal forecasting, as well as policy simulation.

First-level spending units' three-year budget forecasts and draft budgets

As already mentioned in the 2009 review, the FLSUs' three-year budget forecasts are established to ensure that activities will be planned within ceilings that are in compliance with fiscal rules, but also to provide a fair degree of predictability over resources available to the FLSU. Although Bulgaria's recent compliance with its fiscal targets highlights the success of the three-year budget forecasts in delivering the first objective, achieving the second one has proven more challenging.

The PFA requires the ministries and state agencies to present the budget according to a programme classification. In addition, it is legally possible for a programme classification to be extended to other public bodies, by a decision of the appropriate authority, i.e. the Council of Ministers for other bodies included in the state budget, the respective supervisory bodies for the State Social Security and the National Health Insurance Fund, and the municipal council for the municipalities. For 2020, the Council of Ministers decided that a programme budget should be applied by all FLSUs under the state budget, except for the judiciary and the National Audit Office. Budgetary forecasts are prepared through a top-down, but iterative, process.

In February and September, the Budget Directorate[8] within the Ministry of Finance provides guidelines to all FLSUs for the preparation and presentation of their budget forecasts for the next three years, and after that, their draft budgets and updated budget forecasts. This is a change compared to the procedure in place in 2009, under which only the first year budget was prepared by the FLSUs and the latter two years were estimated by the Ministry of Finance.

The State Expenditure Directorate and the Budget Directorate, both within the Ministry of Finance, hold consultations and negotiations with the FLSUs on their forecasts, which may lead to adjustments. Once agreed, the three-year budgets are aggregated to form a medium-term expenditure framework. The processes in the spring and autumn are not entirely similar. Indeed, in the autumn, as part of the update of the three-year budget, in-depth discussions take place with the State Expenditure Directorate on allocations for the following year, which will form the basis of the draft state budget as described in the section "State budget formulation and execution". For municipalities, the process is different, in that municipalities prepare budget forecasts only for local activities, as the state-delegated activities are financed through transfers.

Despite transferring the responsibility for preparing the budgets of the latter two years to the FLSUs, interviews conducted for this review suggest that the reliability of the three-year budgets beyond the first year remains questionable. Line ministries tend to focus on achieving the highest amount possible for the upcoming year, and place little emphasis on the latter two years of the medium-term period due to the short horizon of new policies and measures. In other words, the FLSUs may accept allocations that cannot fund existing programmes in the medium term, and are hoping that more will become available at the necessary time. This clearly calls into question the strength of the link between resource allocation and strategic planning, since there is no certainty about the funding that underpins realistic planning. This suggests that there is room for Bulgaria to streamline the procedure underpinning the preparation of the MTBF and three-year budgets of the FLSUs. In order to strengthen the link between resource allocation and strategic planning, the Ministry of Finance should deepen the working relationship it has been developing with the Strategic Planning Unit of the Council of Ministers, which is responsible for drafting the Law on Strategic Planning of the Republic of Bulgaria. Linking resources to strategic policy objectives will ensure that policy making in Bulgaria is on a more certain footing.

In particular, Bulgaria could consider adopting a more sequenced budget cycle, progressing from the presentation of high-level fiscal aggregates in the spring through to the more detailed three-year budget proposals in the autumn. In this regard, the experience of Sweden, where the budget cycle has been streamlined and a fiscal margin integrated into the MTBF to ensure that expenditure ceilings are not reopened from one year to another, could provide interesting insight (Box 6).

Box 6. Streamlining medium-term and annual planning in Sweden

Spring Fiscal Policy Bill

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

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

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

Budget Bill

In the autumn, the Budget Bill containing the government's detailed proposals for the coming year is the focal point of the parliament's annual budget dialogue. It aligns with, but provides greater specificity to, the general guidance set out in the Spring Fiscal Policy Bill. The Budget Bill is the legal vehicle whereby the parliament decides the ceiling for central government expenditure for the third year ahead. The expenditure ceiling for the current budget year is thus decided three years in advance.

The principle of compliance with the expenditure ceilings appears to be widely understood within Sweden's public administration, and ceilings are rarely, if ever, revised. This lends a strong, medium-term continuity to the budgeting and planning processes. The application of this principle is facilitated by the operation of the "fiscal margin" amounts, which are buffer amounts within the overall expenditure ceiling and which provide some measure of flexibility, from year to year, to respond to emerging pressures without reopening the overall expenditure ceiling for that year.

The margin is calculated according to the guiding principle that actual expenditures should be allowed some leeway to move automatically in response to macroeconomic developments, without jeopardising the overall expenditure ceiling. To achieve this, the government's guidelines specify that the fiscal margin should amount to at least 1.5% of ceiling-restricted expenditure for the budget year (year y), 2% for the following year (year y+1) and 3% for each of the following two years (year y+2 and y+3). In practical terms, the fiscal margin is left unaccounted for (and unbudgeted for) within the annual budget allocations and multi-annual expenditure ceilings. The fiscal margins are not regarded as "contingency reserves", but rather as operational stabilisation mechanisms.

Source: Downes, Moretti and Shaw (2017[7]).

Fiscal co-ordination

Municipalities and social security funds represented respectively 7.4% and 14.1% of general government spending in 2018. They are both administratively independent, but are also part of the Consolidated Fiscal Programme. Therefore, they, along with the state, are subject to the obligations resulting from Bulgaria's fiscal rules. To reconcile the principles of administrative autonomy and joint fiscal responsibility, municipalities' and social security funds' budgetary systems have been kept separate from that of the state, but all have been systematically harmonised in terms of timetable, presentation and reporting, and the monitoring of their financial situation has been strengthened over the last decade.

Subnational government

The Ministry of Finance provides guidelines to the municipalities for the formulation of spending forecasts related to local activities as a part of the guidelines to the FLSUs. Under the budget procedures, the Council of Ministers, upon the proposal of the Minister of Finance, adopts standards for financing state-delegated activities involving in-kind and value indicators. The standards for state-delegated activities are developed jointly by the minister concerned, the National Association of Municipalities in the Republic of Bulgaria and the Minister of Finance. The Ministry of Finance holds consultations with the National Association of Municipalities concerning the total amount of the main fiscal relations between municipal budgets and the central budget, as well as other proposals concerning the draft state budget for the relevant year. This is a highly formal process. At the end of the consultations, a protocol is signed with the National Association, which is part of the annual budget documentation prepared for the Council of Ministers and the parliament.

A number of procedures have also been established for safeguarding the financial situation of municipalities. To prevent municipalities from accumulating unsustainable debt or otherwise taking on excessive risks, they are required to have a medium-term objective of a balanced budget measured on a cash basis and there are restrictions on expenditure increases that may be undertaken by municipalities. In addition, municipalities are submitted to strict reporting requirements, with the Ministry of Finance monitoring a number of financial indicators to identify any financial difficulty as early as possible.

The PFA provides for rehabilitation procedures for municipalities in financial difficulty. Support from the state budget is contingent on the municipality developing its own financial recovery plan, which must be realistic. These reforms attempt to strike a balance between ensuring budgetary discipline at the local level while at the same time strengthening financial decentralisation.

Social security

Social security systems are operated on a pay-as-you-go basis and have their own sources of revenue from employers' and employees' contributions, but they also rely on transfers from the state budget for funding their benefits.

There are restrictions on the borrowing powers of social security funds and in the event of the general government debt ratio exceeding 60%, the government's corrective actions may include placing further restrictions on their borrowing.

The budgets of State Social Security and of the National Health Insurance Fund are submitted respectively and adopted by the National Assembly separately from the state budget. In order to ensure consistency between them, the Ministry of Finance co-operates with the National Social Security Institute and the National Health Insurance Fund when they develop their budget forecast and their draft budget.

Fiscal risks and fiscal sustainability

Sustainability is one of the key principles laid out in the PFA concerning the management of public finances and has been a focus of the fiscal policy of successive governments in Bulgaria. Most of the government's and the European Commission's recent estimates suggest that the country's long-term public finances are robust, with sustainability risks low over the medium and long term.

However, in the recent past, Bulgaria suffered from two fiscal shocks. The first one was a consequence of the global economic crisis, which hit the Bulgarian economy at the end of 2008, when real GDP contraction intensified, leading to a fiscal deficit of -4.1% of GDP in 2009, followed by fiscal consolidation measures. The second shock was in 2014, when liquidity pressures in two national banking institutions necessitated government intervention.

While it should be noted that the relatively low debt-to-GDP ratio is an advantage in maintaining fiscal sustainability, Bulgaria, being a very open economy, is generally vulnerable to macroeconomic risks, such as lower demand from its main trading partners and rising international prices (e.g. oil, exchange rate). The country is also facing a number of important demographic challenges, including a shrinking and ageing population, which is creating significant long-term pressures for the public finances.

In addition to the macroeconomic, fiscal and demographic risks, Bulgaria is facing a number of smaller risks over the short to medium term, including, for example, the risks related to state guarantees and the deteriorating financial situation of some state-owned enterprises[9] (IMF, 2019[3]).

In recent years, the emphasis of the fiscal risks management strategy has been on adopting a prudent fiscal policy stance for mitigating very large or long-term fiscal risks. In particular, conservative fiscal targets have been set to ensure there would be sufficient fiscal space to cope with future shocks. In this respect, the International Monetary Fund's most recent Article IV (IMF, 2019[3]) noted that Bulgaria's low level of public debt provided ample space for coping with unexpected shortfalls in external demand or other shocks, and that medium-term fiscal targets preserved existing buffers.

In addition, a contingency reserve is included annually in the budget, to create "headroom" in the event of the realisation of some risks or other unforeseen expenditure. The level of the reserve reached BGN 80 million in 2019. Article 43, Paragraph 3 of the PFA provides that the contingency reserve can be used on the basis of a decree adopted by the Council of Ministers under certain rules and procedures for determining the financing of the necessary measures and activities, without any reporting to the parliament at the time of their approval. This is because the cases provided for in the Disaster Protection Act require urgent action for prevention, protection or assistance outside the normal planned prevention and protection activities. While any such decision should be exercised with care lest it undermine the role of parliament, which is responsible for the stewardship of the public finances, the act contains some mitigating provisions, such as having to inform the chair of the parliament,[10] and penalties for misappropriations.[11]

Successive governments also acted to prevent or mitigate specific risks that materialised in the past. For example, following the 2014 short-term deposit runs on some banking institutions, policy responses to financial sector risks included asset quality reviews and stress tests of the commercial banks. In addition, there were comprehensive reforms of the Central Bank's banking supervision and regulatory framework and practices. The Central Bank was attributed resolution functions that were compliant with the European Bank Recovery and Resolution Directive through its implementation in the Law on the Recovery and Resolution of Credit Institutions and Investment Firms in July 2015.

Contingent liabilities and long-term sustainability of public finances are disclosed and discussed annually in both the MTBF and Convergence Programme prepared for the European Commission. The identification and reporting on contingent liabilities is the responsibility of the Ministry of Finance. For example, in 2019, the contingent liabilities measured in the Convergence Programme comprised state guarantees, the guaranteed debt of the general government sector and the liabilities of state-owned enterprises.

Public-private partnerships were mentioned, but without any evaluation of the associated contingent liability.

The annual long-term fiscal sustainability assessment is a shared responsibility prepared by the Ministry of Finance and the National Social Security Institute. The framework used for realising the annual assessment is similar to the one developed by the European Commission for its Ageing Report, published every three years.

Although Bulgaria has well-established procedures identifying and measuring risks over the short to long term, and these have informed the national debate about the appropriate fiscal policy course for the country, further progress should be possible. In particular, to increase the comprehensiveness of the fiscal risks identification and credibility of the forecasts, the Ministry of Finance could consider establishing an annual assessment of the sources of deviations from the initial macroeconomic and fiscal forecasts of the previous year.

Summary of key recommendations

- Medium-term spending priorities should be more comprehensively and clearly signalled in the MTBF and systematically linked to the Law on Strategic Planning of the Republic of Bulgaria. For this, increased co-operation between the Ministry of Finance and the Strategic Planning Unit of the Council of Ministers, as well as between the Ministry of Finance and the line ministries, could prove useful in the formulation of the MTBF and for increasing the quality of the programme budgets of the FLSUs.
- The MTBF should be formulated in the spring with enough fiscal space to accommodate macroeconomic developments and new policy initiatives. This would help to avoid changes to the expenditure ceilings in the autumn, which do not arise from regulatory and structural changes affecting the activities of the FLSUs, from the implementation of new and/or revised policy development measures recommended by the European institutions, or from changes in the macroeconomic environment affecting the fiscal parameters of the budgetary framework. This would eliminate the current weakness of the MTBF formulation process, which is that unjustified frequent requests for revisions of expenditure ceilings generate little incentive for realistic planning.
- Macroeconomic forecasting should be done using a fully integrated macroeconometric model that takes into account dynamic interactions between key economic and fiscal indicators. In the short term, the application of the simulation model should be extended and the Ministry of Finance should assess the impact of economic shocks and strengthen the assessments of the economic and fiscal impact of new policies, in addition to conducting sensitivity analysis.
- Building on existing practices, a more systematic approach to managing fiscal risks should be developed. In particular, the sources of past deviations from the forecasts should be systematically identified and analysed to ensure that the government and National Assembly have a comprehensive and up-to-date understanding of what might endanger compliance with fiscal rules over time.

State budget formulation and execution

Budget formulation

The formulation of the State Budget is integrated in the wider framework of establishing the MTBF and the three-year budget forecasts of the FLSUs, but it follows a distinct procedure led by the Budget Directorate within the Ministry of Finance. It takes place during the second half of the year and aims at establishing

the judiciary's, legislature's and executive bodies' individual budgets that will be aggregated for establishing the draft State Budget, as well as the updated MTBF.

Table 14. Bulgaria's budget calendar

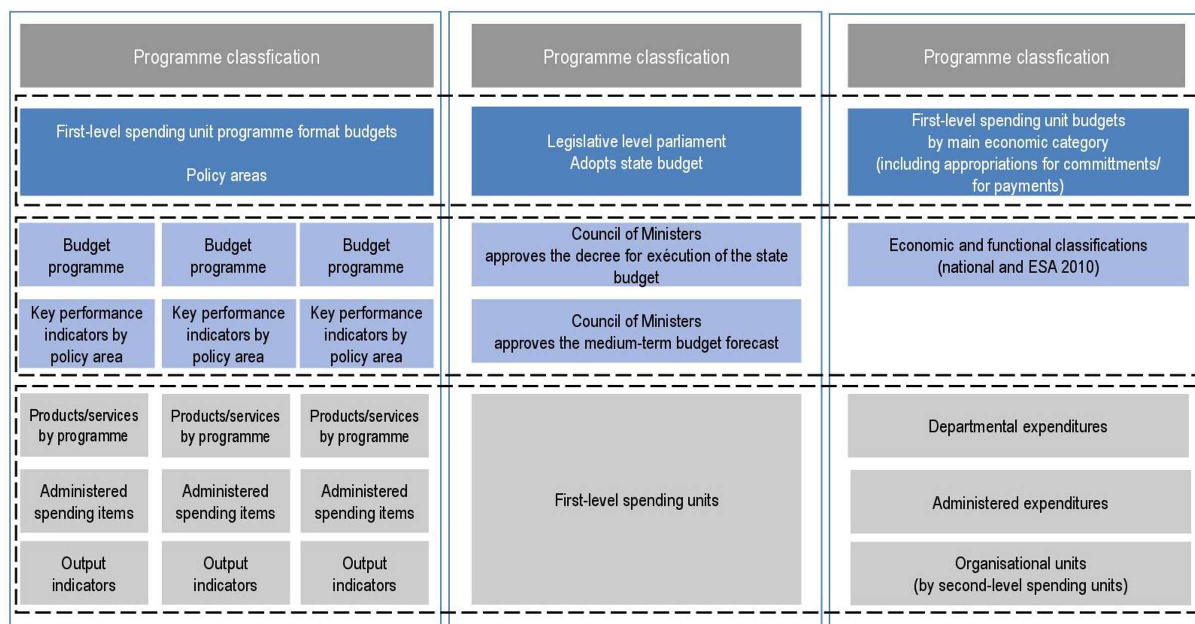
Month	Activities
January	1. The Council of Ministers adopts the budget procedure prepared by the Ministry of Finance.
February	1. The Ministry of Finance defines the main macroeconomic parameters for preparing the forecasts. 2. The Ministry of Finance gives guidelines to the first-level spending units (FLSUs) for the preparation of their budget forecasts.
March	1. The Ministry of Finance prepares the spring macroeconomic forecast by 25 March. 2. The FLSUs, including the chairman of the National Assembly and the Supreme Judicial Court, develop and submit their budget forecasts to the Ministry of Finance. 3. The Ministry of Finance makes an assessment of the FLSUs' budget forecasts.
April	1. The Ministry of Finance submits a draft decision to the Council of Ministers for adoption of the medium-term budgetary forecast (MTBF). 2. The Council of Ministers approves the MTBF and submits it to the National Assembly for information.
July	1. The FLSUs align their budget forecasts for the next three years in compliance with the approved MTBF.
August	1. The Ministry of Finance updates the main macroeconomic parameters for preparing the forecasts.
September	1. The Ministry of Finance gives guidelines to the FLSUs for preparing their draft annual budgets and updated budget forecasts for the second and for the third year. 2. The FLSUs present their draft annual budgets and updated budget forecasts for the second and for the third year to the Ministry of Finance. 3. The Ministry of Finance makes an assessment of the draft annual budgets for the next year and of the updated budget forecasts for the second and for the third year of the FLSUs. 4. In case of incompliance with the requirements of the guidelines, the Ministry of Finance returns the draft budgets for the next year and the updated budget forecasts of the FLSUs without those of the National Assembly, the judiciary and municipalities. The FLSUs submit the revised draft budgets and updated budget forecasts to the Ministry of Finance. 5. The Ministry of Finance conducts budget dialogues with the FLSUs on the budget parameters of their draft annual budgets and updated budget forecasts. 6. The Ministry of Finance prepares the autumn macroeconomic forecast by 25 September.
October	1. The Ministry of Finance develops the draft state budget law and the updated MTBF. 2. The Ministry of Finance informs the chairman of the National Assembly and the chairman of the Supreme Judicial Court on its opinion on their draft budgets for the next year. 3. The Ministry of Finance co-ordinates with the FLSUs on their draft budgets and the updated budget forecasts. 4. The Ministry of Finance co-ordinates with the Fiscal Council on the draft state budget law for the next year and the draft of the updated MTBF, which represents motives to the law. 5. The Ministry of Finance informs the FLSUs on the main parameters on the draft state budget law for the next year and their expenditure ceilings for the second and third year. 6. The Ministry of Finance prepares and submits the draft state budget law and the updated MTBF to the Council of Ministers for approval. 7. The Council of Ministers approves the draft state budget law and the updated MTBF. 8. The Council of Ministers submits the draft state budget law and updated MTBF, its opinion on the draft budget of the judiciary and the programme formats of budgets of the FLSUs under the state budget, which correspond to the parameters of the draft state budget law and updated MTBF to the National Assembly.

Source: Ministry of Finance.

The draft state budget and the updated MTBF are prepared according to a traditional budget nomenclature, using both the economic and functional classifications. In addition, Bulgaria has been experimenting with programme classification since 2002, introducing it at legislative level in 2004 with full coverage of all ministries from 2006.

This practice was legislated in 2016 in the PFA. The Ministry of Finance prepares an annual budget using the traditional nomenclature. The budget is also segmented into main government policies, with information on the budget programmes attached to each of these policies provided in the individual budgets of the FLSUs (Figure 19).[12]

Figure 19. Nomenclatures used in Bulgaria at different levels of authorisation



Source: Ministry of Finance.

Negotiations on the FLSUs' individual budgets are carried out at the level of the Deputy Minister of Finance with the participation of directors and experts. The Minister of Finance is involved only in the most strategic decisions. The co-ordination process takes the form of a highly formalised dialogue, with the FLSUs presenting the main objectives and challenges related to the financing of the policies they implement. The potential for introducing new measures is considered by discussing opportunities for prioritisation within the budgets of the FLSUs and/or providing additional financing.

Rarely, a budget dispute occurs that cannot be resolved at the level of the Minister of Finance. In such an instance, the relevant budget organisations submit opinions in accordance with the Rules of Procedures of the Council of Ministers, which arbitrates.

Budget negotiations cover not only payments authorised for the next year, but also the amount of new commitments that line ministries will be authorised to enter into over the next year. Reliable, up-to-date information on commitments, in addition to payments, is key for monitoring the sustainability of the FLSUs' financial decisions against fiscal targets and expenditure rules.

The National Assembly and the judiciary formulate their own draft budgets independently and submit them to the Minister of Finance and the Council of Ministers. The Minister of Finance must notify the National Assembly and the Supreme Judicial Council of his/her views on their budget proposals in writing. In preparing the state budget, the Ministry of Finance conducts dialogues with representatives of the National Assembly and the judiciary in order to inform the view of the Minister of Finance. In case of a dispute concerning the National Assembly, the Prime Minister and the Chairman of the National Assembly must reach an agreement. In the case of the judiciary, the final decision about its budget rests with the National Assembly.

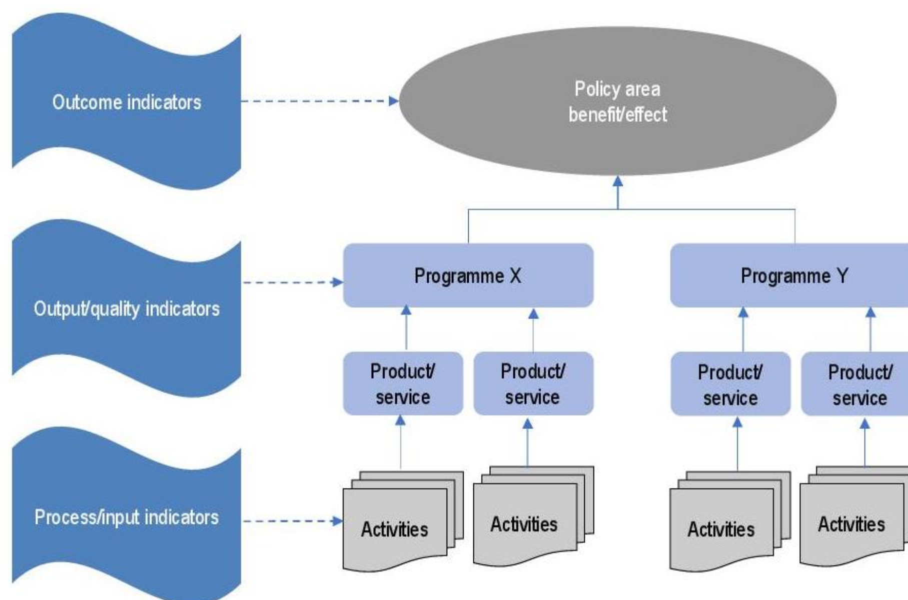
Performance evaluation

Performance budgeting

In the ministries and other FLSUs' individual budgets, which apply a programme budget format, detailed performance information (Figure 20) is provided as follows:

- General information on the organisation's mission and vision for organisational development and capacity.
- For each policy area, a vision for the development of the policy; strategic and operational objectives and their expected benefits or effects; performance indicators and associated targets; and how the organisation will collaborate with other entities to deliver these.
- For each budget programme, the objectives of the programme; performance indicators and associated targets; and responsibilities. Generally, around 10-15 performance indicators are defined by policy area and around 20-25 by budget programme. These performance indicators can be of different types, as follows: input, output, outcome, quality or process (see Box 7).

Figure 20. Elements of the structure of the programme and result-oriented budget in Bulgaria



Source: Ministry of Finance.

Monitoring of the targets within the FLSU is not undertaken by the Financial Directorate, but by the department in charge of the strategy. However, performance information is considered to be an integral element of budgetary reporting: results *vis-à-vis* performance indicators and targets are presented in both the half-year and year-end budget execution reports prepared by the FLSU.

A weakness of the system of programme and performance budgeting is that information, on both objectives and performance indicators, is provided in the FLSUs' budgets as opposed to in the core budget documentation – that is, the MTBF and the updated MTBF/state budget.

The Ministry of Finance has therefore started paying attention to providing strategic performance information in these documents. In particular, the government has set so-called headline indicators in five key policy areas in the context of the EU-wide "Europe 2020" strategy. In addition, the National Reform Programme comprises output indicators to monitor the progress of policies supporting these targets.

Finally, Bulgaria wishes to introduce monitoring and performance evaluation through the already identified key performance indicators, which are an element of the review of expenditure policies in the MTBF/updated MTBF, to track progress in achieving policy targets.

The OECD defines performance budgeting "as the systematic use of performance information to inform budget decisions, either as a direct input to budget allocation decisions or as contextual information to inform budget planning, and to instil greater transparency and accountability throughout the budget process, by providing information to legislators and the public on the purposes of spending and the results achieved" (OECD, 2019[8]). While Bulgaria has a basis for implementing performance budgeting, there is some way to go before it can be said to be fully operational and being used to inform budget planning. This is because the actual impact of performance information on the allocation of resources in the formulation of budgets has been weak so far. Furthermore, the performance system is multi-layered and therefore complex. The Bulgarian authorities acknowledge that it is a challenge to identify clear and measurable outcome indicators that will support enhancing transparency and accountability, since parliamentarians and civil society may find it too complex to focus on the key outcomes.

The OECD provides a list of good practices that, if adopted, would place performance budgeting on a strong footing in Bulgaria. In particular, consideration could be given as to whether the performance information clearly reflects the priorities of the key stakeholders; whether expenditure is strongly aligned with the strategic priorities of the government; whether the system has sufficient flexibility to handle the complex relationship across the public sector between spending and outcomes; and whether there are sufficient human resources, data and infrastructure to make optimum use of performance budgeting.

Box 7. Types of performance indicators in Bulgaria

Performance indicators are set in compliance with the strategic and operational objectives of the policy areas and budget programmes of the budget organisation and are usually related to the provided products and services and the expected results/benefits/effects in the process of implementation of the budget programmes.

Input indicators (10%) measure the planned resources for providing products and services, like human resources, material resources, equipment, capital and financial assets.

Process indicators (1%) measure productivity, like the price of products, average costs per student in a school, hospital beds occupancy, the number of kilometres that are patrolled by a policeman, etc.

Output indicators (80%) represent the volume and the quality of the provided products/services and measure the amount of provided products/services or the number of users who have been serviced.

Quality indicators (1%) measure the level of satisfaction of the beneficiaries' expectations. Important characteristics are reliability, accuracy and competency.

Outcome indicators (8%) measure the benefits, effects, results and the impacts of the programmes and thus may be used as an assessment tool of the overall success of the programme. They are the most important kind of indicators, as they reflect the changes in the economic, social and cultural environment.

Source: Ministry of Finance.

Spending reviews

Although programme and performance budgeting have become a recognised tool in Bulgaria for showing how the government plans to deliver its key policies, in the past there has been no procedure for systematically identifying less effective spending and regularly reprioritising expenditure. Although individual spending reviews have been conducted before, to address this, the Ministry of Finance has engaged more systematically in spending review exercises since 2016, with the technical assistance of an international organisation. A spending review manual has been established based on the results of the pilots, but the governance and role of the future spending reviews in the budget cycle still need to be clarified.

In particular, the governance of spending reviews will be a crucial factor for their success. For example, the involvement of the Council of Ministers would send a clear message about the prominence of the spending reviews in the political decision-making process and provide the necessary platform to assess the social and political acceptability of ambitious savings proposals, proposals for prioritisation of expenditures, and optimising activities and services, clarify political trade-offs and force collective agreement on competing priorities.

This review therefore recommends that Bulgaria develop an agenda or road map towards implementing periodical spending reviews, with the ultimate objective of creating a formal stage in the budget cycle during which the efficiency and effectiveness of government programmes is analysed, which takes into account the budget process features and the scale of government policies and programmes. An option to consider would be to analyse results of spending reviews at the outset of the formulation of the MTBF and to use them for setting the three-year budgets of the FLSUs, as is done, for example, in the United Kingdom (Box 8). This would help develop the planning and performance aspects of the three-year budgets, which, as noted above, have been lacking so far.

Box 8. Spending reviews and medium-term planning in the United Kingdom

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

Spending reviews are a principally top-down process designed to force allocative trade-offs between competing priorities. Four to six months before the outcome of spending reviews is announced, individual spending ministries (departments) are required to submit capital and operational spending proposals based on several scenarios set by the finance ministry (HM Treasury). The scenarios are measured against a baseline agreed between each ministry and the Treasury, itself usually the subject of a negotiation. Each bid is scrutinised – sometimes by a ministerial committee led by the budget minister, the Chief Secretary to the Treasury – before final decisions are taken by the finance minister (Chancellor of the Exchequer) in close collaboration with the head of the government (Prime Minister). The spending reviews done for each spending ministry are often supplemented by parallel strategic reviews of major spending areas, or try to identify areas of reform, such as the Strategic Defence & Security Reviews that often provide the policy context to spending on external security spending decisions.

Multi-year budgets resulting from the spending reviews are presented for information to the UK parliament, although the parliament votes only on the annual budget (Supply Estimate Bill).

Note: This procedure was not followed for the 2019 spending review.
Source: Based on public information.

Capital budgeting

The government's main capital investment priorities are set out in the Governing Programme of the Government of the Republic of Bulgaria 2017-2021, where individual sectoral policies are defined, and specific measures and objectives are set out for the implementation of the programme.

Table 15 shows the capital expenditure in the state budget in recent years.

Table 15. Capital expenditure in the state budget of Bulgaria, 2016-18

	2016	2017	2018
Total expenditure (million BGN)	21 788	22 236	23 821
Capital expenditure (million BGN)	1 975	1 687	2 472
Capital % of total expenditure	9.1%	7.6%	10.4%

Source: Ministry of Finance.

The amount involved has been significant. For that reason, it should be subject to robust planning, appraisal, selection, monitoring and review procedures. This cycle, therefore, forms the basis for the review of capital budgeting.

Capital investments that are co-financed by European Structural and Investment Funds are subject to monitoring and reporting requirements. Furthermore, planning and approval for capital investment that is not EU co-financed is regulated by an ordinance adopted by the Council of Ministers Decree 337/2015.[13] It regulates the conditions to be met by investment projects financed by state loans and projects applying for financing with a state guarantee and the procedure for their consideration. This ordinance regulates the conditions to be met and the procedures to be followed before investment projects financed by state loans or with a state guarantee can be approved. It provides that, in general, capital expenditure is subject to the same scrutiny that applies to all public expenditure under the Public Finance Act. Despite these basic provisions, there is no clearly defined standard methodology for planning, monitoring and reporting on capital investments, which would apply across all sectors equally.

Under the Defence and Armed Forces Act, projects with a cost in excess of BGN 50 million must first be approved by the Council of Ministers. In addition, projects with a cost in excess of BGN 100 million must also receive the approval of the National Assembly.

The MTBF and the updated MTBF present the capital expenditures of the Consolidated Fiscal Programme both on a sectoral basis and on an aggregated basis. It also presents the capital expenditures by source of funding, namely national budget and EU fund accounts. The expenditures are presented also at the aggregated level in terms of capital transfers, gross fixed capital formation and other capital expenditure.

The annual state budget law presents capital expenditures at the level of the total state budget and at the level of the FLSUs, as well as capital transfers from the state budget to non-governmental organisations and enterprises. The municipal budgets also show the amount received from the state budget for capital expenditures. If a capital investment is considered to have a significant impact on the budget, it is highlighted in the budget documentation. In recent times, highlighted capital measures have included the decision of the National Assembly to approve the acquisition of combat aircraft and combat equipment, and the decision for the introduction of a toll fee to fund the construction of a road. Significant investment projects are also included in the relevant expenditure programmes. This information includes non-financial information and key performance indicators. The threshold of what constitutes a significant impact is set at BGN 1 billion, which is very high. For investment projects below that threshold, it appears to be a matter of judgement as to whether individual projects are highlighted.

Capital investment is prioritised on the basis of the need to implement sectoral development strategies that have been adopted by the Council of Ministers. In approving an investment strategy, the government takes account of the cost of large investment projects within the overarching financial constraint of the fiscal targets. Following on from this, the individual ministries determine the priority projects for financing within the framework of the funds provided by the State Budget Act. The sectoral development strategies include all sources of project funding, such as the state budget, own contribution by beneficiaries, EU co-financed programmes and other donors.

There is no standard methodology for appraising and prioritising capital investment projects based on value for money. Instead, the primary basis for approving projects derives from the need to draw down EU co-financing and the overall budgetary aggregates, which decides what can be afforded. The guiding principle is that the individual ministries are best placed to develop policies in their area of competence. The head of each budget organisation is responsible for managing the budget for each particular year and prioritising expenditures, including investment expenditures, as long as this complies with overall expenditure guidelines issued by the Ministry of Finance. Prioritisation for capital investment depends primarily on the relevant FLSUs, with the Ministry of Finance carrying out its monitoring and analysis role in the context of compliance with agreed policies and available resources. Any monitoring of capital expenditure is within the context of the overall budget of the FLSUs. There is no longer a specialist unit within the Ministry of Finance charged with carrying out the monitoring of capital expenditures. insofar as capital expenditures are currently considered integrated within the budgets of the individual FLSU.

The Resource Management under the European Structural and Investment Funds Act and the Council of Ministers Decree No. 162 of 2016 provide detailed rules for the award of grants under programmes financed by the European Structural and Investment Funds. In addition, where investment projects are not EU co-financed, there is a procedure, within the budget process, for applying, reviewing, approving and monitoring the implementation of these projects, financed by state loans or backed by state guarantees. Nevertheless, these regulations do not provide a methodology that allows for appraisal and prioritisation of projects across sectors in terms of return on investment.

The MTBF includes calculations for capital spending in the upcoming budget year and the following two years. Furthermore, the programme budgets are drafted within the ceilings of the expenditures of the FLSUs for the next three years, with capital expenditures being included in these programme budgets. These are, however, indicative and subject to amendment each year, when it is necessary to provide additional funding for measures/projects complementing the policies conducted. Nevertheless, where capital expenditures are included in a programme budget, the information relating to these expenditures is presented in a three-year perspective, including for those ministries that have significant capital expenditure, such as the Ministry of Transport, Information Technologies and Communication; the Ministry of Environment and Waters; and the Ministry of Regional Development and Public Works. For the Ministry of Defence, the Council of Ministers approves the allocation of investment costs over a period of seven years, although this is not published.

The municipalities also incur capital expenditures, which are funded by a combination of own revenue and transfers from the state budget. The amount of the targeted capital expenditure subsidy and the mechanism for distributing it per municipality is set out in the State Budget Act for the relevant year. According to the guidelines for the FLSUs for the preparation of their budget forecasts, municipalities have to plan the amount of transfers from the state budget, on the same level as defined in the State Budget Act for the current year. Therefore, their ability to plan for capital expenditure is restricted. Despite this restriction, the municipalities prioritise capital investments by drawing up a list after consulting with both citizens and business at local level. Every mayor has a four-year plan that includes a list of projects, which address the investment requirements of the municipality.

There is no evidence to suggest that in prioritising capital investment subsequent recurrent costs are also taken into account. In Bulgaria, current expenditures are regarded as being separate from capital expenditures and are not bound to a specific investment project. This is surprising, as some capital projects can have significant implications for current expenditures once the physical building is completed. If capital budgeting is an integral element of the budget, planned investments should take account of subsequent current expenditure commitments. Additionally, for large projects at least, the current costs should also be published alongside the initial capital investment.

The implementation of investment projects is often subject to delay. While some delay is inevitable owing to unfavourable weather conditions or the challenges that complex projects often present, in two of the three most recent years actual capital expenditure has been less than 80% of the planned allocation. On the other hand, in 2018, the actual capital expenditure was just under 10% more than the planned allocation.

Table 16. Actual capital expenditure compared to planned expenditure, Bulgaria, 2016-18

	2016	2017	2018
Planned expenditure (million BGN)	2 554	2 120	2 285
Actual expenditure (million BGN)	1 975	1 687	2 472
Actual as a % of planned	77.3%	79.6%	108.2%

Source: Ministry of Finance.

There is no provision for the carry-over of unspent capital funds into the following year. Neither is there a provision for virement between capital and current expenditures. Since the first-level spending units have a degree of flexibility for selecting capital projects as long as they remain within their respective total budget allocations, it is possible that a delay in one particular project could result in another project being initiated in its place. This could lead to projects being selected mainly to avoid underspend on the budget units' capital allocation. Nevertheless, the fact that in two of the three years in Table 16, actual capital expenditure was less than planned expenditure suggests that this may not be a major problem.

For the preparation of the 2020 Budget, the Ministry of Finance guidelines instructed the FLSUs to prepare their three-year budget forecasts for capital expenditures and capital transfers in more detail. Each FLSU also was required to submit an explanation of its investment policy in general (including in the current year) and a list of priority investment projects with an estimated cost of more than BGN 500 000 planned for the period 2020-22. This is a step towards better prioritisation and ensures that plans for new projects take account of the progress of existing ones.

One of the most important criterion as regards the selection of investment projects is their anticipated contribution to achieving "key indicators" target values in the MTBF. Another criterion is the anticipated feasibility of the project, with projects already in train or in the preparation phase being prioritised in order to guarantee greater absorption of the available resources. To guard against underspending on capital projects, the FLSUs are required to have some reserve projects in place.

It is also required to assess the conformity of the investment project with the programme and financial framework. The selected investment projects should be appropriate and realistic for implementation; related to the development strategies in the respective sector; and consistent with the priorities, objectives and measures set out in the governance programme of the government of Bulgaria, in strategic documents and programmes. Each project should take into account the long-term benefits to the society or the sector targeted by the project and the long-term social and/or economic benefits to which the project will contribute.

The reporting on the implementation of large investment projects includes data on the overall costs and on the physical progress of the projects. Data on capital expenditures are included in the quarterly, six-monthly and annual reports to the Ministry of Finance. In compliance with the ministry's guidelines, each FLSU reports every quarter in a standard form on the capital expenditure under each separate project. Additional information on the implementation of investment projects by the FLSUs is contained in their semi-annual and annual programme reports. These reports contain information to demonstrate that both the total cost and the physical progress of major investment projects are being monitored by the responsible government unit. These reports are in a programme format, and contain detailed information on the degree of implementation and achieved societal benefits with regard to key performance indicators for each policy area. Units responsible for individual policy areas are also required to report to the minister and senior management as regards the progress on major investment projects. In addition, each line ministry is required to report monthly on the implementation of projects funded by state investment loans, accompanied by an explanatory note. For projects funded by European Structural and Investment Funds and other international programmes and contracts, the reporting format and periodicity is regulated in the grant agreement. Financial statements are submitted quarterly to the Steering Committee. A request to the Steering Committee for payment is accompanied by a technical report demonstrating the physical progress of the projects in question.

Despite the reporting requirements, the absence of a centralised methodology for appraisal and evaluation means that there is a greater concentration on the procedural part of the capital investment than on resource management. Across different budget units and different projects, there are different assessment procedures and different performance criteria. Furthermore, there is no established procedure for conducting reviews or evaluations of investment projects to determine whether the projects were actually delivered in line with expectations and/or to identify lessons that could be learnt with a view to improving capital investment in the future.

The Bulgarian authorities should consider adopting a basic methodological framework common to all investment sectors and project types. Such a framework should establish a common approach for the assessment of projects, as well as a reference point against which *ex post* evaluations can be measured. It should also take account of the OECD Framework for the Governance of Infrastructure, which sets out the ten dimensions regarding the prioritisation, planning, budgeting, delivery, regulation and review of infrastructural investment. Furthermore, given that the municipalities have a capital budget, a methodological framework should also take account of the principles established in the OECD's *Principles on Effective Public Investment across Levels of Government*. The adoption of such a framework would result in improved institutional arrangements; improved monitoring tools; harmonised appraisal techniques and selection criteria; an evaluation and review process; and a better socio-economic return to the state on its capital investments.

Budget execution

The State Budget Act enters into force on 1 January for the relevant year. Guidelines for the execution of the State Budget and the EU funds accounts are published on the Ministry of Finance's website. The Ministry of Finance's Treasury Directorate is responsible for the organisation, co-ordination and analysis of the budget execution, cash management, as well as accounting (including payments).

On the basis of the Law on Financial Management and Control in the Public Sector, each FLSU is tasked with developing rules for the organisation of its budget's execution, including policies and controls to ensure that all major risks are managed. Preventive controls on payments include double signature requirements, as well as legality compliance controls.

Operational managers are responsible for complying with all applicable rules and the Ministry of Finance exercises only aggregate control. Acting in contravention of any legislation is considered a violation of budgetary discipline. In the event of such a violation, the Minister of Finance may restrict or discontinue transfers, or restrict payment limits of budgetary organisations.

Spending control and monitoring

The National Assembly approves resource allocations in the state budget at the level of policy areas, i.e. a fairly aggregate level, which in theory would give an almost total autonomy to the FLSUs in deciding how to use their funding. However, this autonomy is limited in practice, as the decree on the execution of the state budget approved by the Council of Ministers allocates resources to the FLSUs at a more detailed level (programme and economic category). These detailed allocations are discussed during the budget preparation and provided to the National Assembly's committees that examine the FLSUs' budgets. In addition, past practices restricting the use of their full appropriations by the FLSUs (freezing of appropriations) have gradually been phased out.

Great attention has traditionally been paid to expenditure control in Bulgaria, after the public sector experienced substantial arrears in the wake of the 1996-97 crisis. For this purpose, resources allocated to the FLSUs are managed in an IT system called SEBRA. This system is used in turn by the FLSUs to allocate some of these resources to second- and lower-level spending units. Ceilings are entered into the system by the Ministry of Finance, which do not allow for any commitment or payment to be recorded in excess of this authorised amount.

To facilitate the monitoring of actual spending by the State Expenditure and Treasury Directorates, at the outset of the fiscal year, the FLSUs are required to present a monthly allocation of their annual budgets to the Ministry of Finance classified by budget programmes and economic category. The Ministry of Finance then monitors budget execution against the initial forecasts on a monthly and quarterly basis. In accordance with a provision in the PFA (Article 135), the Minister of Finance informs the Council of Ministers on a quarterly basis about the current parameters of the budget execution and prepares a semi-annual report, which is presented to the National Assembly by the Council of Ministers.

This monitoring is based on monthly and quarterly cash reports, presented by all FLSUs to the Ministry of Finance. In addition, information is reported quarterly to the Ministry of Finance with the trial balance reports in a web-based system, including levels of commitments and appropriations accumulated by the FLSUs, as well as EU funds. Consistency checks are carried out on the information provided by the FLSUs, based on data collected by the Bulgarian National Bank.

Flexibility measures

The legislation provides for considerable flexibility in reallocation of resources during budget execution, within certain limits – i.e. the budget balance shall not be affected and reallocations shall comply with the overall ceiling on wages approved in the state budget. The main flexibility measures can be summarised as follows:

- Under the state budget, the FLSUs may make internally compensated changes to their budgets, including the budgets of their second-level spending units, whereby those changes shall not affect expenditure per policy area and budget programme. In such cases, the overall staff expenditure may not be affected, either, unless changes are made to the delegated budgets.
- The Minister of Finance may make internally compensated changes to the established budget programme expenditure within the FLSUs' budgets under the state budget, upon their proposal, which shall not affect the established expenditure per policy area. In such cases, the overall staff expenditure may not be affected, either, unless changes are made to the delegated budgets.

- The Council of Ministers may approve internally compensated changes to the established expenditure, by policy area, within the FLSUs' budgets under the state budget, upon their proposal, in co-ordination with the Minister of Finance. Excluding the delegated budgets, the Council of Ministers may approve changes to the established staff expenditure within the budgets of the FLSUs under the state budget, upon their proposal, in co-ordination with the Minister of Finance.

At the level of the Council of Ministers, reallocations can be made between policy areas, provided that the budget balance is not affected and reallocations comply with the overall ceiling on wages approved in the state budget. This has led, in the past, for example, to transferring appropriations from the capital budget to the operating expenditure such as transfers to municipalities without any external oversight.

Supplementary budget laws are mandatory only in case of a negative deviation from the annual objective for the budgetary balance under the consolidated fiscal programme or in the case of a change to the main variables of the budget, including additional revenues being realised. Supplementary budget laws must also ensure compliance with the fiscal rules. Although over the last decade at least one supplementary budget law has been submitted to the National Assembly, there would be room to increase parliamentary control and general transparency over budgetary reallocations. In doing so, Bulgaria could consider the experience of France (Box 9).

Box 9. France: Flexibility measures and reporting to parliament

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

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

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

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

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

Source: Moretti and Kraan (2018[9]).

Cash management

Payments of the FLSUs are initiated in SEBRA, within the ceiling set in the system by the Ministry of Finance. The controls to be exercised prior to a payment to a third party are defined by each FLSU in compliance with the Financial Management and Control Act, which requires all FLSUs to have financial controllers and an internal audit function. In 2016, a Control Methodology and Internal Audit Directorate was created in the Ministry of Finance to support the co-ordination and harmonisation of financial management and control systems within the FLSUs.

Cash payments have been managed by the Bulgarian National Bank through a Treasury Single Account (TSA) since the 2000s. The TSA allows the "pooling" of all cash balances in the Bulgarian National Bank and also handles cash transfers to third parties. Its basic principles, rules and requirements are regulated by the PFA.

The cash balances of the state (including the National Assembly, judiciary), as well as the funds received from the EU and other international institutions in the form of grants, aid or loans are managed in the TSA. Only the cash balances of municipalities are not yet transferred to the TSA, due to concerns over any limitation to their administrative independence.

The PFA authorises the opening of accounts in commercial banks in certain cases (e.g. for opening letters of credit or servicing payments under international programmes or contracts that explicitly require a separate account). In such cases, entities transfer liquidities daily in and out of commercial banks to enable them to make payments for certain expenses and therefore operate a so-called "zero balance account".

The Minister of Finance is entrusted with the management and disposal of the resources in the TSA. Based on operational information for expected proceeds and payments for a three-month perspective, given by the respective responsible directorates in the Ministry of Finance, the State Treasury Directorate makes a forecast and schedule for cash flows in the TSA on a daily basis.

Summary of key recommendations

- As part of the annual budgeting process, line ministries should be responsible for evaluating and prioritising within their spending ceilings, and bringing forward evidence-based options for allocating resources using their performance data and indicators. More generally, this report recommends benchmarking the performance budgeting system against the *OECD Good Practices for Performance Budgeting* (see OECD (2019[8])).
- Spending reviews should be scaled up to allow regular government-wide reviews of expenditures and identification of potential economies within the main spending areas based on efficiency and effectiveness analyses. The spending reviews should draw upon, and complement, the more regular evaluations carried out by line ministries mentioned above. An option to consider would be to analyse the results of spending reviews at the outset of the formulation of the MTBF, to inform the multi-year spending plans.
- The Bulgarian authorities should adopt a basic methodological framework common to all investment sectors and project types. Such a framework should establish a common approach for the assessment of projects, as well as a reference point against which *ex post* evaluations can be measured. It should also take account of the OECD Framework for the Governance of Infrastructure, which sets out the key factors regarding the prioritisation, planning, budgeting, delivery, regulation and review of infrastructural investment.
- Legislation should require that reallocations between policy areas be submitted for the approval of the National Assembly. Increases without the approval of the National Assembly should be authorised only for certain categories of expenditures (e.g. entitlements), or according to a certain criterion (e.g. below a specific threshold).

Transparency and openness in budgeting

Budget documentation and accounts

Bulgaria has paid increasing attention over the last decades to provide a higher level of transparency in the financial operations and situation of the State Budget and the Consolidated Fiscal Programme. The OECD's 2009 Budget Review underlined, for example, progress in making the budget more comprehensive of public activity and efforts for developing programme and performance budgeting, as well as the fact that the Ministry of Finance was publishing budget documents and accounts through the budget cycle.

Against this background, since 2009, the authorities have focused their efforts on improving the comprehensiveness and quality of budget documents, as follows:

- Compared to the three-year budget forecast prepared prior to the adoption of the PFA, the MTBF details the main assumptions that underpin macroeconomic and budgetary forecasts, the priorities of government policies, and discusses the sustainability of the public finances and main fiscal risks.
- Within the MTBF, information on the past fiscal performance and prospects for the Consolidated Fiscal Programme is more developed. In particular, information is provided on actual spending and revenue over the last two years and forecast for the next three years, as opposed to only one year back in 2009.
- The draft state budget is a more comprehensive document than in the past, in that it is accompanied by the updated MTBF reflecting the recommendations of the EU and changes to the macroeconomic environment, the programme formats of the budgets of the FLSUs as well as other documents such as the minutes of the consultations with the National Association of Municipalities, hence providing all of the necessary information for an informed scrutiny of the budget proposal.

In addition to the core budgetary information published as part of the MTBF and the state budget, the government also prepares and publishes some important complementary budget documents, including a Tax Expenditure Report and Debt Management Strategy, as well as a monthly debt bulletin.

Concerning accounting, Bulgaria had already made substantial progress in strengthening its accounting practices back in 2009, with the public sector accounting system built on two main "pillars":

- First, the principle of "regularity, sound financial management and transparency", with, within each entity, responsibilities clearly allocated for defining all of the necessary internal controls and processes and monitoring their implementation.
- Second, the harmonisation of accounting practices within the Consolidated Fiscal Programme, with all relevant entities required to use a double entry accounting system and a common chart of accounts and to follow the same accounting principles (i.e. the National Accounting Standards, so-called NASs) defined by the Ministry of Finance.

The PFA requires that the NASs be consistent with both the requirements of Bulgarian legislation and all relevant international frameworks for public accounts and statistics; that is, namely, the European System of Accounts 2010, or ESA 2010; the Government Finance Statistics Manual 2014; and the International Public Sector Accounting Standards, or IPSASs. ESA 2010 is considered the primary reference, due to the EU requirement that transmission of government accounts from member states to Eurostat will follow ESA 2010 rules.

In practice, the many regulations enacted by the Ministry of Finance over the years have made it difficult to navigate and understand the accounting framework, with practical guidance lacking on how to implement certain requirements. In addition, the legislation, by referring to three different international frameworks (even if ESA 2010 is the primary reference), has left a significant degree of discretion to the Ministry of

Finance in diverging from generally accepted accounting principles, for example in terms of reporting of tax revenue, revaluations or consolidation.

The Ministry of Finance justifies these divergences by the requirements of the PFA, which states that accounting standards, instructions and the chart of accounts shall enable the generation of data concerning the general government sector and its sub-sectors in compliance with EU requirements.

However, there have been calls from the National Bulgarian Audit Office for a move to full accrual accounting and more rigorous alignment of national accounting standards with the IPSASs, in the wider context of the EU's project for developing a set of European public accounting standards based on the IPSASs. Such a move would be consistent with the practices observed in the OECD, where around three-quarters of countries have adopted accruals and around one-third use standards aligned with the IPSASs or other international accounting standards (OECD/IFAC, 2017[10]).

Before undertaking such a reform, Bulgaria should, however, ensure that, going forward, accounting standards will be developed under a governance framework ensuring a high level of expertise and integrity, for example by obliging the Ministry of Finance to consult an independent advisory body before enacting any accounting standard (Box 10). In addition, the Ministry of Finance could consider declustering and streamlining its accounting and financial reporting procedures. This would require developing and issuing a "government accounting manual", consolidating in a single document all accounting policy guidance and promoting consistency in methodologies for reporting or measuring for similar items between entities.

Box 10. Financial reporting advisory bodies in selected OECD countries

In setting financial reporting advisory bodies, OECD countries such as France, Portugal and the United Kingdom have adopted different models – i.e. accounting standards and policies are established by the government and reviewed by the advisory body (United Kingdom) or the advisory body establishes standards and submits them to government for endorsement (France and Portugal).

France

Accrual accounting standards are enacted by the Ministry of Finance, after receiving advice from an independent advisory council, the Public Sector Accounting Standards Council (Conseil de Normalisation des Comptes Publics).

The council is tasked with proposing standards to the Ministry of Finance for three separate sectors: 1) the state and its agencies; 2) Social Security; and 3) local governments.

The Public Sector Accounting Standards Council has a Standing Committee (*collège*) comprising a chair and 18 members, including 9 *ex officio* members and 9 technical experts, who are appointed by the Minister of Finance for a 3-year fixed-term period, with the possibility of renewal.

For each sector, a sectoral committee, working under the leadership of a chair, composed of qualified professionals is in charge of establishing sectoral standards. Each sectoral committee comprises members with sectoral knowledge, with some members taking part in all committees.

Portugal

In Portugal, the accounting standard-setter role was redesigned following a major reform of the organisational structure of the Ministry of Finance in 2012.

The Accounting Standards Committee (Comissão de Normalização Contabilística) was created by Law-decree 134/2012. It is an independent body under the Ministry of Finance comprising stakeholders from both the private and the public sectors. The Accounting Standards Committee comprises two

committees: one for business accounting and another for public sector accounting (Comissão de Normalização Contabilística Pública, CNCP).

According to Article 18, the main task of the CNCP is to issue public sector accounting standards and interpretations taking the IPSASs as a reference, as well as to contribute to its development, implementation and improvement.

The CNCP comprises nine members, including representatives of the accountants and auditors institutes, the Budget General Department, Local Government General Department, Finance Inspection Directorate, National Institute of Statistics; universities teaching accounting, and an independent member acknowledged as expert (Article 16).

United Kingdom

The accounts of central government departments and agencies are prepared in accordance with the Government Resources and Accounts Act 2000 and the *Government Financial Reporting Manual*, which applies International Financial Reporting Standards as adapted or interpreted for the public sector by HM Treasury, and sets out the framework by which government departments should prepare their resource accounts. To prepare the *Government Financial Reporting Manual*, HM Treasury is advised by an independent advisory board, the Financial Reporting Advisory Board.

The Financial Reporting Advisory Board is composed of representatives from the accountancy profession in the private and public sectors, academia, and government bodies.

Source: Moretti et al. (2019[11]).

Concerning reporting requirements, within the scope of the state budget, the FLSUs are required to provide regular reports on a cash basis in accordance with the budget nomenclature defined by the Ministry of Finance. This budget information, including commitments and appropriations, is reported to the Ministry of Finance on a monthly and quarterly basis, through a web-based portal (the so-called Treasury Management Portal), to allow for efficient monitoring of budget execution and timely identification of any deviation. In addition, all FLSUs communicate NAS-based financial outturns to the Ministry of Finance on a quarterly basis and at year-end (annual financial report).

On this basis, the Ministry of Finance establishes two types of reports throughout the course of the year:

1. cash-basis monthly bulletins, half-year and year-end outturns to report on the execution of the state budget
2. NAS-based quarterly and annual financial statements to report on the financial position of the Consolidated Fiscal Programme.

Year-end financial statements and cash reports are systematically submitted for financial audit by the Bulgarian National Audit Office. In particular, the Consolidated Fiscal Programme shall be communicated to the supreme audit institution by 30 June at the latest and be submitted to the Council of Ministers by 30 September. Once approved it can be laid before the National Assembly.

Accessibility and legibility

Providing accessible, clear and regular budgetary and financial information to the public is increasingly considered by the Ministry of Finance as an important part of its core functions. In this spirit, the Ministry of Finance is using a number of tools for its communication towards external stakeholders:

- First, online access to all budgetary documents prepared through the budget cycle on the Ministry of Finance's website. The comprehensiveness of the documentation provided is recognised in Bulgaria's ranking on the Open Budget Index 2017; it ranks 21st out of a total of 115 countries.
- Second, access to a number of data sets, including budgetary and financial outturns of the Consolidated Fiscal Programme and State Budget on the government's Open Data Portal.[14]
- Third, a monthly newsletter on the outturn of the state budget and the main consolidated fiscal programme indicators.

Virtually all observers with whom the OECD met within the framework of this review, including parliamentary and civil society stakeholders, journalists and think tanks, underlined progress in the government's financial reporting practices, including the accessibility of the budgetary and financial information. They also identified areas where progress is needed, as detailed below.

First, the sheer volume of information published by the Ministry of Finance (see Table 17) poses challenges for the institutions of government, both in terms of generating this material to a high standard of quality, as well as in terms of the assimilation and use of this information by parliamentarians and civil society organisations, while efforts are made to make the materials more accessible to different target groups.

Second, the different institutional coverage, accounting basis and budget nomenclature used across reports sometimes makes it difficult to navigate among them for non-expert readers. For example, the MTBF is prepared on a cash basis, but the main budgetary indicators in the medium term are also presented using the rules and principles of ESA 2010.

Third, some observers also noted that the monthly bulletin and newsletter on the state budget's execution, although it includes a short commentary to assist in interpreting the report, did not always provide sufficient information or explanation of significant transfers between budget categories.

Overall, concern was expressed that increased "transparency", as measured through the number and regularity of reports, was partially outweighed by a lack of "accessibility", defined as the ability to identify the salient points of a budgetary document and the provision of clear and legible narrative explanations on important financial operations. Improvements in these areas are possible, and would increase the usefulness of budgetary and financial material for policy scrutiny and accountability purposes.

Governments increasingly publish documents tailored to the needs and responsibilities of each target audience, including citizens' budgets and financial statements for the general public, as well as fiscal report summaries and commentaries for parliamentarians and technical users OECD (Moretti and Youngberry, 2018[12]).The government of Bulgaria therefore could explore possibilities to prepare a wider set of reader-friendly summaries and commentaries of technical, complex and sometimes overly detailed fiscal reports, in addition to the existing Citizen's Budget, at different stages of the budget process.

Table 17. Publicly available budget documents and financial reports in Bulgaria

	Institutional coverage			Frequency			
	First-level spending unit	State budget	Consolidated Fiscal Programme	Monthly	Quarterly	Half-year	Annual
1) Forward looking							
Pre-budget statement (medium-term budgetary framework)		✓	✓				✓
Executive's budget proposal (including draft State Budget Act, updated medium-term budgetary forecast)		✓	✓				✓
Enacted budget (State Budget Act)		✓					✓
State Debt Strategy		✓					✓
Programme-based budgets	✓						
2) Backward looking							
Execution of Consolidated Fiscal Programme			✓		✓		✓
Monthly bulletin for the execution of the state budget and main indicators under the Consolidated Fiscal Programme		✓	✓	✓			
Stock of arrears[1]			✓	✓			
Execution of the programme-based budget expenditures	✓				✓		
Report on municipalities' finances			✓		✓		
Half-year budget execution report for the Consolidated Fiscal Programme			✓			✓	
Tax expenditure report		✓					✓
Annual state budget execution report, including annual report on the Consolidated Fiscal Programme		✓	✓				✓
Programme budget execution report	✓					✓	✓
Annual financial statements	✓						✓

Note:
1. Arrears are overdue payments towards third parties.
Source: Ministry of Finance.

Citizens' consultation

Heightened engagement with societal stakeholders is considered "critical to building citizen trust and is a key contributor to achieving different policy outcomes in diverse domains" (OECD, 2017[13]) and is now relatively common practice for OECD public institutions.

In Bulgaria, there is a tradition of consultation with "intermediary representative bodies". For example, during the budget formulation, the Ministry of Finance holds a series of consultations with the line ministries as well as with the National Association of Municipalities in the Republic of Bulgaria. Regarding social benefits, the Ministry of Labour and Social Policy meets annually with the representatives of trade unions and some professional organisations to consult them on policy changes.

Budget processes do not allocate time, however, to engage in meetings with other stakeholders, including ordinary citizens. This is an area where substantial progress is possible and needed in Bulgaria, through, for example, public calls for budget proposals or public meeting consultations (Box 11).

In addition, in OECD countries, the National Assembly will often encourage public participation as part of its scrutiny of the draft budget proposal. For example, permanent committees hold public hearings on the budget in 25 OECD countries, and select committees hold hearings in 11 OECD countries (OECD, 2019[6]). Similar practices could be considered in Bulgaria.

Box 11. OECD: Making the budget more inclusive and participative

While proposing and implementing the budget are the legal duty of the executive, strengthening the involvement and participation of citizens and civil society, in ways that are compatible with national legal frameworks, can increase responsiveness, efficiency, impact and trust. Heightened citizen engagement also reduces opportunities for corruption and strengthens the culture of open democracy. The OECD Budget Transparency Toolkit identifies three main best practices to make the budget more inclusive and participative.

1. Opportunities for participative approaches across the budget cycle and with different institutions should be developed, through introducing open, innovative and responsible approaches. As a general principle, participative approaches should aim to complement established legal and constitutional mandates, and so designed to enhance the effectiveness of policy making and accountability at each stage. Suggested starting points regarding opportunities for participative approaches are:

- the government should consider timely consultative processes across the budget cycle, taking into account the knowledge, interests and capacities of citizens
- enhance parliamentary engagement and consultation with citizens during the phases of the policy and budget cycle where parliament is most actively involved
- (…)

2. Realistic and informed public participation is necessary to ensure that the public can form an overview of budget design, results and impacts, and to set the basis for a productive and meaningful engagement with other stakeholders in the budget process. Suggested starting points to support realistic and informed participation are:

- information on budgetary constraints, policy costings, opportunity costs and policy trade-offs, as well as contributions to major policy goals and cross-sectoral issues
- (…)
- ideally, multi-dimensional impacts of policy options, including economic, social and environmental impacts, as well as effects on gender equality.

3. Designing a participation process should aim to demonstrate its usefulness and relevance for budget policy making, thus helping to sustain the approach across policy cycles and different administrations. Public participation should naturally respect legal prerogatives of the executive and parliament; and indeed it is helpful if the legal framework allows for, and supports, an orderly and transparent approach to public participation. Suggested starting points regarding the design of a participation process include:

- (…)
- tailoring methods of engagement that are best suited to the various participants
- (…)
- following up and giving citizens timely feedback about progress and results
- making sure that the most vulnerable parts of the population are included.

Source: OECD (2017[14]).

Summary of key recommendations

- Accounting standards should be established under a governance system that would ensure appropriate levels of technical expertise and independence. In addition, the alignment of the national framework with a single international framework would be desirable for clarity over the rationale for any departure from generally accepted accounting principles.
- The government should develop and issue a "government accounting manual", consolidating in a single document all accounting policy guidance and promoting consistency in methodologies for reporting or measuring for similar items between entities.
- A wider set of reader-friendly summaries and commentaries should be prepared by the government, including a Citizens' State Accounts document.

Parliamentary involvement and external oversight

Parliamentary role in the budget process

Pre-budget debate

In many OECD countries, parliamentary committees, especially budget committees, hold hearings with stakeholders, including non-governmental organisations, trade associations, chambers of commerce and so on. The objective is to compile a menu of economic, social and fiscal policies that the government can consider in formulating its budget. While governments generally are not obliged to accept the policy recommendations initiated in the National Assembly, such a process can help governments better understand what citizens may expect in a budget. As shown in the results of the OECD 2018 Budget Practices and Procedures Survey, around two-thirds of OECD countries submit a pre-budget report to the legislature before the annual budget is tabled for approval. The Bulgarian government, after approving the MTBF, which is classified as a pre-budget statement by the International Budget Partnership, sends it for information purposes to the National Assembly without any feedback being required. The National Assembly in Bulgaria does not appear to be actively engaged in budget planning before the budget is formulated. It does not have a formal process for providing budgetary advice to the government and influencing its policy decisions before the formulation of the budget. The Budget and Finance Committee may consider establishing a pre-budget consultation process. It can consult with all stakeholders and prepare a submission containing policy proposals for the government's consideration. The results of the pre-budget consultation should be submitted to the government before it finalises the annual budget.

Approval process

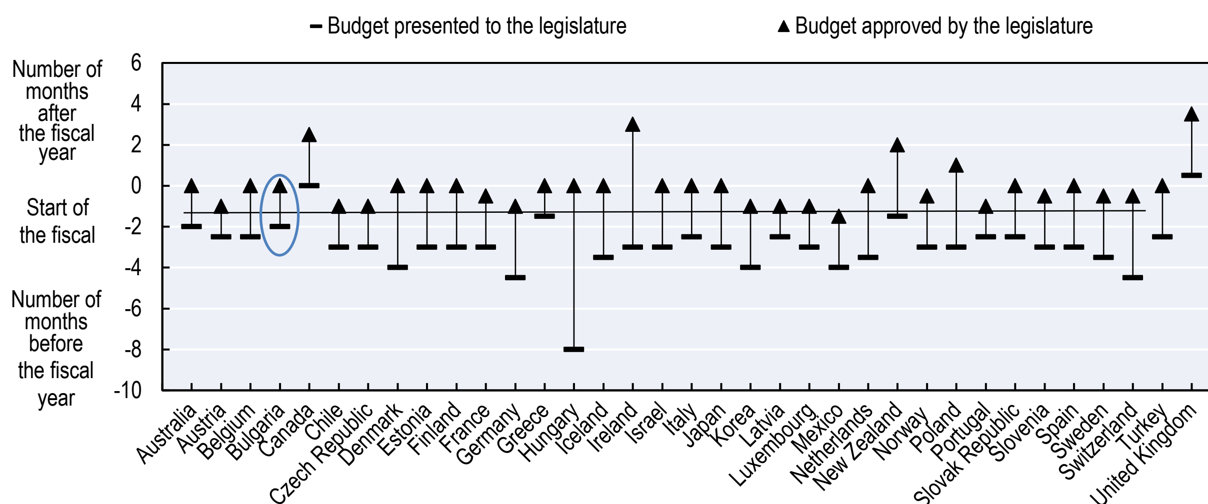
By 31 October, the Council of Ministers approves the draft state budget as well as the draft budgets of the National Health Insurance Fund and the State Social Security. The draft budgets must be submitted to the National Assembly for its examination and approval.

The Council of Ministers submits the approved draft State Budget Act to the National Assembly, along with the updated MTBF, which presents the underlying assumptions for the budget, its opinion on the proposed budget of the judiciary that has been prepared independently by the Supreme Judicial Council and the FLSUs' budgets in a programme format. All of these must conform to the parameters of the draft State Budget Act and the updated MTBF.

The approval process, including promulgation by the President of Bulgaria, must be completed before the end of the year. This leaves less than two months for the National Assembly to debate and approve the draft budgets. This time frame of two months is relatively short, compared to the OECD Best Practices for Budget Transparency (OECD, 2002[15]), which recommend that the executive should submit its budget

proposal to the legislature at least three months prior to the start of the fiscal year (Figure 21). Furthermore, it is notable that the medium-term budgetary forecast is submitted to the National Assembly for information purposes only and does not have to be approved by the legislature, Although it is indicative, it complies with the annual State Budget Law with regard to the main budgetary parameters. This means that apart from a truncated time frame for debate on the budget, there is no provision for the budgetary framework to be debated and approved before the budget is drafted.

Figure 21. Amount of time for legislative debate of budget proposal, Bulgaria vs. OECD countries



Notes: Where timelines differ for the approval of tax and expenditure policy measures, the timeline for the approval of expenditure measures is shown. In Hungary since 2015, the budget is submitted to the parliament at the end of April. While the parliament legally has until the end of December to approve the budget, in practice it has been approving the budget in early July before the summer recess. In Ireland, all of the estimates that have been voted by the legislature for the budget year are not finally implemented in legislation until the annual Appropriation Act is passed. It is usually one of the last pieces of legislation to be enacted each year. Statutory confirmation of the appropriation of moneys, pursuant to Article 17.1.2 of the Constitution, therefore takes place after these moneys have been spent, almost 12 months after the start of the budget year. Data for the United States are not available. Information on data for Israel: http://dx.doi.org/10.1787/888932315602.
Source: OECD (2018[16]).

The chairman of the National Assembly sends the draft budgets to standing committees for their consideration. The lead committee is the Standing Committee on Budget and Finance. It has 22 members selected in proportion to the number of seats of each parliamentary caucus and is chaired by a member from the governing coalition. The Budget Committee consults with experts from the Ministry of Finance and other stakeholders on various financial matters of importance throughout the year, including the budget process. In particular, it works with the Ministry of Finance on necessary amendments to the tax laws. Such amendments have to be submitted to the National Assembly for debate and approval before the National Assembly considers the state budget.

The standing committees invite officials of relevant ministries and the Ministry of Finance to discuss the draft budgets. Each committee prepares a report that includes a summary of the committee's deliberation, as well as any proposed amendments to the draft budget. According to the PFA, members and committees of the National Assembly can propose amendments to the draft budgets, subject to the pay-as-you-go rule. This means that any proposal to increase spending in one area must be funded by either reducing spending in another area or by increasing revenues.

The Budget Committee's role is to prepare a report for the National Assembly summarising the reports from other committees and including its own assessment of the draft budgets. The Budget Committee also takes into account the assessment and analysis of the Fiscal Council of the draft budgets. Before finalising the summary report to the National Assembly, the Budget Committee holds a wrap-up meeting to which various officials are invited to discuss their views on the draft budgets. Participants at the meeting, which is broadcast publicly, include the Minister of Finance, the Minister of Labour and Social Policy, the Minister of Health, trade unions, employers' organisations, academic organisations, non-governmental organisations, the National Bank, and the National Audit Office. The Budget Committee tables the summary report at the National Assembly. This report will be the basis of debate at the plenary at the first reading of the draft budgets. After the first reading, members of the National Assembly vote to proceed with the bill.

At this stage, every member or a group of members of parliament has at least seven days to propose amendments to the draft budgets. In practice, it is possible for members of parliament of a certain parliamentary group to propose an alternative budget (a combination of many proposals). The Budget Committee considers all proposed amendments. After consultations with government officials and other stakeholders, the committee drafts a report expressing its views on the proposed amendments. This report will be tabled at the National Assembly before the second reading and the final vote on the draft budget bills. During the debate, every member can propose additional amendments. The National Assembly must vote on every proposal separately.

Following the second vote, the Chairman of the National Assembly sends the budget bills to the President of Bulgaria for promulgation. The President has 14 days to sign the bills as passed or return them to the National Assembly for further consideration. If the President returns them for further consideration, the Chairman of the National Assembly assigns the Budget Committee to examine the President's concerns. The National Assembly must vote again within 15 days on the budget bills. The President has never returned the draft budgets to the National Assembly without signing them.

If the approval process is not completed before the end of the year, budget units can continue their operations on the basis of spending limits approved in the previous year's budget. Tax revenues can be collected on the basis of the existing tax laws.

Monitoring the execution of the budget

The National Assembly of Bulgaria has the authority and obligation to monitor the execution of the budget during the fiscal year. According to the PFA, the government is obligated to provide information on the execution of the budget on a regular basis. The National Assembly receives detailed reports from the government on implementing budget measures and the government's financial health. The legally established reporting process is transparent; it provides the National Assembly with the necessary information to discharge its oversight responsibility and hold the government to account on the budget's execution.

Within 45 days from the end of each quarter, the Minister of Finance reports to the Council of Ministers the cash performance of the state budget and the main variables of the Consolidated Fiscal Programme, based on monthly reports prepared by budget units. These reports are published on the Council of Ministers' website.

No later than 15 September, the Council of Ministers submits a half-year report on the cash performance of the Consolidated Fiscal Programme to the National Assembly, which is also published on the Council of Ministers' website.

Every year, the Minister of Finance prepares an annual report on the implementation of the previous year's state budget, which is audited by the National Audit Office. The Minister of Finance submits the report to the Council of Ministers for consideration by 30 September of the next year. After adopting this report, the

Council of Ministers tables it at the National Assembly, along with information on the implementation of the Consolidated Fiscal Programme and the annual report on the government's debt position. The Minister of Finance is then invited to discuss these annual reports before the National Assembly. The National Assembly issues a decision adopting the annual report on the state budget before the end of the next year.

The annual report on the implementation of the state budget provides information on the results of government policies implemented by the line ministries. The FLSUs submit reports to the National Assembly on the implementation of programme budgets. These reports, which are on a six-month and year-end basis, provide financial and non-financial data and performance information.

Throughout the year, members of the National Assembly can pose questions and interpellations to the Council of Ministers or to certain ministers, including questions about the current budget implementation. The ministers provide oral or written answers to the questions. In addition, parliamentary committees can schedule hearings and invite ministers and government officials to discuss budget implementation. The committees then report the results of the hearings to the National Assembly. These meetings are open to the public.

The government's accounts are scrutinised by a standing subcommittee on the accountability of the public sector of the Budget and Finance Committee. This may undermine the importance of this function. In most OECD countries, a standing committee of public accounts is in charge of this important role. In addition, this committee could be put in charge of examining the National Audit Office's reports.

Amendment power of the National Assembly

In Western democracies, elected representatives have an obligation to scrutinise government spending, hold the government to account and promote budget transparency. Wehner (2004[17]) groups legislatures into three broad categories in terms of their role in the budget process:

1. legislature lacks the authority or capacity (or both) to amend the budget proposed by the executive in a meaningful way, mainly because of the risk of causing the fall of the government
2. legislature has the legal authority to amend or reject the executive's budget proposal but does not have the authority to develop a budget of its own
3. legislature has both the legal authority and technical capacity to amend or reject the executive's budget proposal and to submit its own proposal.

Most European countries, including Bulgaria, fall into the second category.

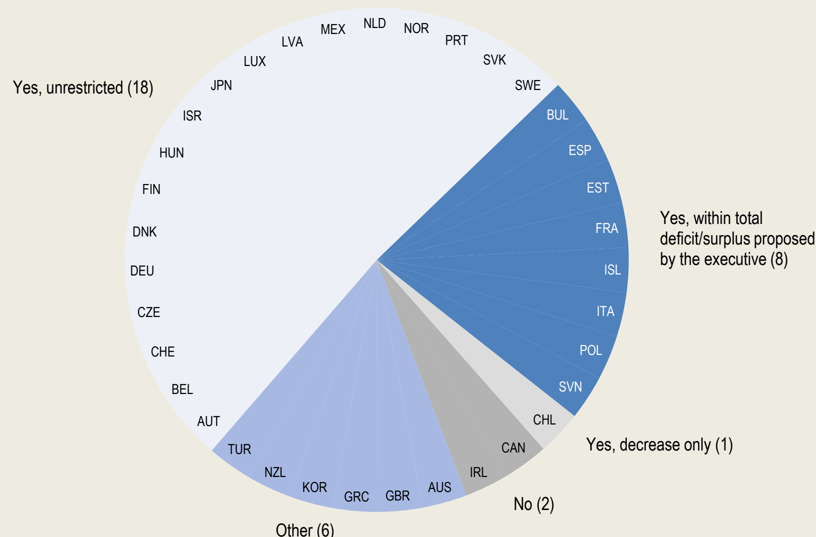
According to the PFA, the National Assembly of Bulgaria can propose amendments subject to the pay-as-you-go restriction. However, given the majority power of the coalition government in the legislature, only a limited number of amendments are approved. For example, for the 2018 Budget, members of the parliament submitted 110 amendments, but only 16 of them were adopted. It is also important to note that analysing the budget and suggesting amendments require expert resources to help parliamentarians grasp complex financial issues. Bulgaria's National Assembly does not have separate administrative units with experts, except in a limited way through the Fiscal Council.

The National Assembly should consider establishing an independent parliamentary budget office. If the idea for an office is accepted, it would provide research and analysis to parliamentarians and parliamentary committees independently and in a non-partisan way to help parliamentarians in their budget scrutiny. This could include economic and fiscal analysis, as well as independent costing of programmes. An alternative is to expand the Fiscal Council's mandate and resources to fill this gap.

Box 12. Amendment powers of the national assembly in OECD countries and Bulgaria

Amendment powers are a key indicator for the potential of the legislature to impact the budget. Although over half of OECD countries report unrestricted amendment powers, in some countries the legislature can amend the budget within the executive's aggregates. Bulgaria belongs to this category. In practice, most OECD legislatures only make minor adjustments to the executive's budget proposal.

Figure 22. Amendment powers of the National Assembly in OECD countries and Bulgaria



Notes: Data for the United States are not available. Information on data for Israel: http://dx.doi.org/10.1787/888932315602.
Source: OECD (2018[16]), Question 39.

According to the Constitution of Bulgaria and the PFA, the National Assembly has a clear role in the budget process. There are, however, certain areas where the role of the National Assembly can be strengthened, resulting in better outcomes.

Fiscal Council

An important change in the budget process since the OECD's 2009 Budget Review has been the establishment of the Fiscal Council of Bulgaria, consistent with EU requirements. The establishment of these independent fiscal institutions has been a major trend across OECD countries in recent years.

The Fiscal Council's enabling legislation specifies its general objectives:

- independently monitor and analyse the budgetary framework with a view to preserving sustainable public finances
- increase the quality of official macroeconomic and budgetary forecasts by performing unbiased and comprehensive evaluation based on objective criteria
- improve transparency and public awareness of the fiscal governance of the country.

The legislation to establish the Fiscal Council, promulgated on 21 April 2015, regulates the Council's functions and structure. In addition, it implemented automatic corrective mechanisms in the event of a significant deviation from the medium-term budgetary targets. The principles of independence, objectivity and transparency are enshrined in the Fiscal Council's enabling legislation.

The council has five members appointed by the National Assembly for six years. Members cannot be appointed for more than two consecutive terms. The necessary qualifications to become a council member are specified in its enabling legislation (Box 13). The council is supported by a small group of experts/analysts seconded from the administration of the National Assembly.

Box 13. Eligibility for the members of the Fiscal Council

The members of the Fiscal Council shall be persons of high morals with a Master's degree in economics. They shall have no fewer than ten years of professional experience in the field of macroeconomic analysis and/or public finance management.

The members of the Fiscal Council may not be persons who:

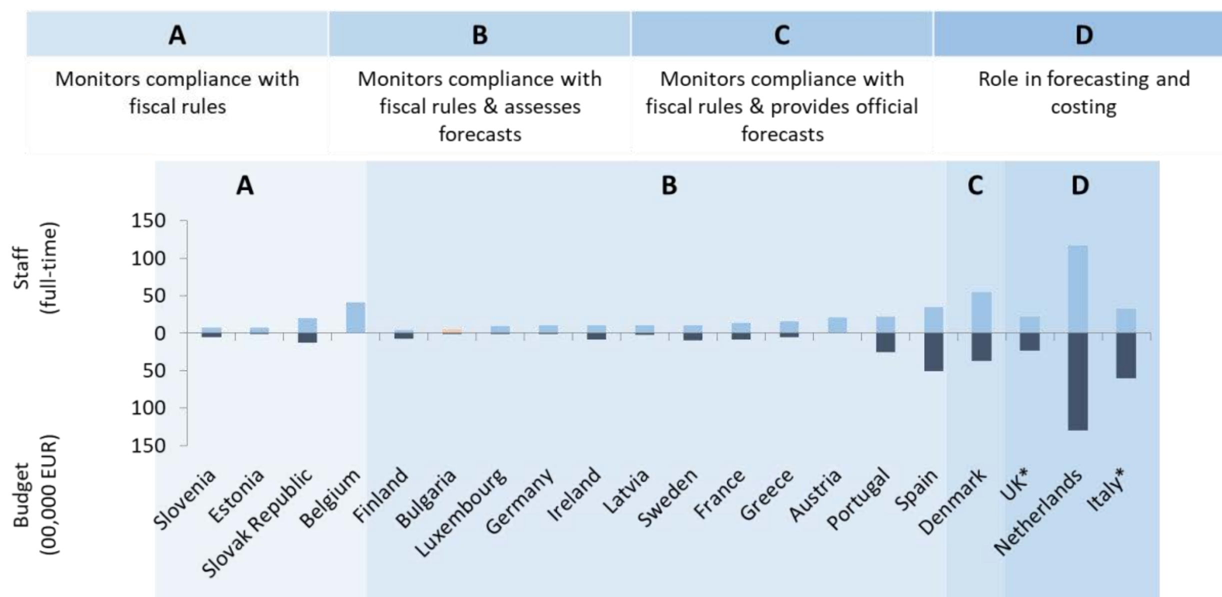
- have been punished for an intentional offence
- have been deprived of the right to take a certain government post, or to practise a certain profession or activity
- have been members of an executive or supervisory body, or have been partners of an unlimited liability company which was wound up due to insolvency, and which has not yet settled with all of its creditors
- in the last five years preceding the date of the decision to declare a bank insolvent have been members of its management or supervisory body.

Council members may have foreign citizenship if they meet the other requirements. They may not take a position with government authorities or perform any activities affecting their independence.

Source: Information provided by the Ministry of Finance.

The organisational, technical and expert procurement of the activity of the Fiscal Council is carried out by five experts in the administration of the National Assembly. Its budget is set by the National Assembly and is included in the National Assembly's annual budget under a separate heading. In 2018, the Fiscal Council's budget was BGN 421 800. Figure 23 compares the size of the main tasks of the independent fiscal institutions of the members of the EU. It is clear that, compared with other European countries, the budget and staff of Bulgaria's Fiscal Council is modest relative to the tasks it is legislated to carry out.

Figure 23. Capacity and function of independent fiscal institutions in select OECD countries and Bulgaria



Source: OECD Independent Fiscal Institutions Database (2019), www.oecd.org/gov/budgeting/OECD-Independent-Fiscal-Institutions-Database.xlsx.

More specifically, the Fiscal Council's main focus is on monitoring the government's compliance with the fiscal rules established in the PFA for the general government sector and the Consolidated Fiscal Programme. To fulfil this task, the Fiscal Council prepares analysis and opinions on the spring and autumn macroeconomic forecasts of the Minister of Finance, as well as the three-year budget forecast within ten days following their publication. The Fiscal Council also prepares reports on the state budget and the budgets of the National Health Insurance Fund and State Social Security System.

These reports include an assessment of the reasonableness of the economic and fiscal forecasts, an opinion on the reasonableness of the estimated revenues and expenditures reported in the budget of the National Health Insurance Fund and the State Social Security System, an assessment of fiscal sustainability, and an opinion on compliance with the fiscal rules. These reports are published on line and submitted to the National Assembly, the Minister of Finance and the Council of Ministers.

If the Fiscal Council concludes that the fiscal rules would be violated, it can provide non-binding recommendations to the Minister of Finance on whatever actions are necessary to comply with the rules. In cases where the government's budget outlook is clearly in violation of the fiscal rules, the Minister of Finance is obligated to prepare a corrective plan and submit it to the Council of Ministers. Depending on the nature of the corrective measures, the government may have to seek parliamentary approval for implementing them. The Fiscal Council monitors the implementation of the measures and reports on them.

One of the main challenges of independent fiscal institutions is free and timely access to information, particularly information that is held by the government. The Fiscal Council Act states that the Fiscal Council is entitled to receive all the information it needs to carry out its tasks. However, the law does not include any enforcement mechanisms. To facilitate better access to information, it has signed a memorandum of understanding with the Ministry of Finance, which appears to have worked well.

Box 14. OECD independent fiscal institution models

Independent fiscal institutions serve to promote sound fiscal policy and sustainable public finances. Today they are considered among the most important innovations in the emerging architecture of public financial management. The OECD has identified good practices for designing and operating effective independent fiscal institutions through the OECD *Recommendation of the Council on Principles for Independent Fiscal Institutions*.[1] Independent fiscal institution models can be classified into three groups.

Fiscal Council Model

Among 18 cases of independent fiscal institutions, over half of them (56%) can be described as under the statutory authority of the executive or standalone, although even within this model there are subsets; for example, some countries have chosen small, largely academic councils (e.g. Ireland, Sweden). Others have followed more of a corporatist tradition in which a larger set of council members may be proposed by different stakeholders or interest groups (e.g. Austria, Belgium, Denmark and France).

One area where fiscal councils differ is their institutional independence. Belgium provides an example of a fiscal council with more limited independence. An example of a fiscal council with stronger independence is the United Kingdom's Office for Budget Responsibility, which is a legally separate arm's-length entity with its own oversight board. The Netherlands' Bureau for Economic Policy Analysis is technically an agency under the Ministry of Economic Affairs, Agriculture and Innovation. Although the bureau is part of the executive branch of government, it enjoys considerable independence, with autonomy over its annual work programme and offices physically separate from those of the Ministry of Economic Affairs.

The Parliamentary Budget Office Model

Another third (33%) of the institutions in the case studies follow the independent parliamentary budget office model (Australia, Canada, Italy, Korea, Mexico, the United States) with a stronger focus on assisting parliamentary oversight of the budget and supporting the work of the main budget committee. Parliamentary budget offices are also more likely to have a costing role.

Other models

France and Finland have established autonomous units connected to the national audit institution, although in 2014 Finland also established an Economic Policy Council, comprised of academics.

In France, it was thought that the High Council for Public Finances (Haut Conseil des Finances Publiques) would benefit from being attached to the Court of Auditors due to the court's well-established reputation for independence and its high level of credibility within France's institutional landscape, in particular the trust placed in it by the legislature.

It should be noted that several OECD independent fiscal institutions also have links to the central bank. For example, Oesterreichische National Bank provides staff for Austria's Fiscal Advisory Council and funding for the Council for Budget Responsibility in the Slovak Republic is drawn from the National Bank of Slovakia.

Note:
1. The analysis draws on the OECD *Independent Fiscal Institutions Database* compiled from a first set of case studies of 18 OECD independent fiscal institutions.
Source: von Trapp and Nicol (2017[18]).

The Fiscal Council was established to ensure Bulgaria complied with EU requirements to create an independent fiscal institution. In its first four years, it published more than 30 reports and participated in a number of workshops and seminars with peers and experts from other jurisdictions. Its enabling legislation, organisation, operation and output are generally consistent with OECD and EU principles for independent fiscal institutions outlined in Box 14. For a young institution, the Fiscal Council has made an important contribution to fiscal management in Bulgaria. The following recommendations aim to strengthen the Fiscal Council and make it more effective.

The Fiscal Council plays a critical role in budget oversight and budget transparency. To fulfil its mandate effectively, it requires adequate resources and timely access to information and the government's fiscal plan. More importantly, it receives the budget documents only ten days before the deadline for preparing an analysis of the government's economic and budget forecasts and its opinion on whether the fiscal rules are respected in the government's fiscal plan. It is almost impossible to thoroughly analyse the government's economic and fiscal forecasts in ten days. The Ministry of Finance should establish a process through which it would allow the Fiscal Council to have access to the necessary documents at least one month before the deadline for releasing its statement on the budget.

Non-partisanship of the Fiscal Council is critical in establishing its credibility. To prevent any perception of partisanship, council members must not have ever been officially associated with any political party. Should the Fiscal Council's legislation be revised, the National Assembly may consider adding a condition that individuals with present or past association with a political party cannot be appointed to the council.

National Audit Office

Bulgaria has had an audit office for over a century. The current National Audit Office (NAO) was established in 1991 and has undergone many changes in its organisation and mandate. The NAO exercises control over implementing the budget and other public resources and activities in accordance with the National Audit Office Act and internationally recognised auditing standards. Its main responsibility is to inform parliament of its official audit opinion on the reliability and authenticity of the financial statements of budget units and the management of public resources and activities.

The NAO is led by a board consisting of a president, two vice-presidents and two independent members appointed for seven years by the National Assembly. Except for the president, board members can be reappointed. To ensure the participation of civil society in audit decisions, the Institute of Chartered Accountants and the Institute of Internal Auditors each nominate one of the two independent board members.

The overall management and control of the NAO rests with the president. The two vice-presidents are in charge of conducting the audits and drafting the audit reports. They work with six specialised audit directorates to discharge their responsibilities. The NAO employs 397 auditors and 103 support staff. Its budget, which is set by its president, is included in the state budget. All audit reports are submitted to the NAO board for approval. The NAO adopts its audit decisions by an open vote requiring the support of at least four of the five board members. A negative vote has to be justified in writing and reported publicly.

The NAO conducts financial audits, compliance audits and performance audits. Every year, it prepares an annual audit programme indicating the number and type of audits to be conducted. In addition to the planned audits, the National Assembly can ask the NAO for up to five other audits. The NAO must conduct the following audits and report them to the National Assembly:

- annual financial statements of all first-level budget units and the second-level budget units that set their own budget independently
- the financial statements of municipalities for which the total amount of budget expenditures exceeds BGN 10 million

- statements of the implementation of the state budget, the budget of the State Social Security System, the budget of the National Health Insurance Fund and the budgetary expenditure of the Bulgarian National Bank
- the management of public resources and activities
- the audit requests from the National Assembly.

The NAO may submit proposals to the National Assembly and its committees on audits that can add significant value to improving the budget discipline and management of budgetary resources and other public resources and activities. All audit reports must be submitted to the National Assembly and published on the NAO website unless the information in the report is protected by law. Any audit report that contains opinions regarding EU funds and funds under other international programmes must also be submitted to the European Court of Auditors and the European Commission.

The NAO does not have judicial power. In cases where an audit reveals evidence of criminal activity, the NAO refers the matter to judicial authorities. However, in cases where the audit finds non-criminal violations in the management of the budgets and accounts, the president of the NAO shall forward the audit report to the competent authority, with a view to seeking appropriate action.

National audit organisations have an important role in ensuring effective, efficient and transparent management of public funds. The NAO is well-designed to carry out its tasks. Its legislation, operational procedures and audit procedures are in line with those of OECD countries. The following recommendations aim to enhance the NAO's role in Bulgaria's budget process.

The NAO does not conduct value-for-money (comprehensive) audits. This type of audit focuses on the overall effectiveness and efficiency of an organisation. Performance audits may examine effectiveness and efficiency within a specific programme. However, they do not provide a holistic assessment of the effectiveness and health of an organisation within the government, or the government as a whole. The NAO should consider adding value-for-money audits to its annual work plan. They enhance the credibility of the government in managing public funds and increase the citizens' confidence in the government's ability to provide public services in an efficient and effective manner.

Summary of key recommendations

- The National Assembly does not have a formal process for providing budgetary advice to the government or influencing its policy decisions before the formulation of the budget. The Budget and Finance Committee should therefore consider establishing a pre-budget consultation process with interested stakeholders. The committee could then compile a list of policies for consideration by the government before it finishes formulating its budget.
- The state budget should be submitted to the National Assembly three months before the end of the fiscal year, which would provide adequate time for parliamentary committees to examine the budget and formulate their amendments if necessary. In addition, the National Assembly should consider establishing an independent parliamentary budget office to provide independent research and analysis in the respective areas to help parliamentarians in their budget scrutiny.

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Notes

[1] Two hundred nine members of parliament elected by the classic proportional representation system and 31 elected individually under the majority representation system in each district.

[2] The 2019 Annual Budget Law was amended in July 2019 (State Gazette 60/2019). A total amount of USD 1.2 billion was allocated for the acquisition of military equipment for the Bulgarian Air Forces. The 2019 amended budget envisages a one-off increase in the cash deficit in 2019 to about 2.0% of GDP, this is consistent with a balanced budget stance in ESA 2010 terms.

[3] These fiscal plans have been revised in the wake of the COVID-19 pandemic.

[4] The concept and criteria of control is defined in the statistical manual ESA 2010.

[5] State Budget Procedures Act preceded the Public Finance Act, which laid the foundation for the introduction of the medium-term budgetary framework.

[6] Adopted by Decree of Council of Ministers No. 337 of 1 December 2015, promulgated in the State Gazette, Issue 94 of 4 December 2015, effective from 1 January 2016.

[7] Article 72.2: “The medium-term budgetary forecast shall be developed by the Ministry of Finance on the basis of the most probable or the more conservative macroeconomic scenario based on the spring macroeconomic forecast”.

[8] The Budget Directorate works jointly with other directorates on the requirements about the presentation of forecast information of the FLSU.

[9] Regarding state-owned enterprises, new legislation – the Law on Public Enterprises – was adopted by the National Assembly in September 2019 and promulgated in the State Gazette on 8 October 2019. In April 2020, the secondary legislation for the implementation of the law was adopted by the Council of Ministers.

[10] Article 62.6: “The competent with regard to the character of the disaster body shall submit to the President of the Republic of Bulgaria and to the Chairman of the National Assembly by equal volume and content information for arisen disasters on the territory of the country”.

[11] Articles 92-100.

[12] Programme and performance budgeting is only mentioned in the “additional provisions” section of the act, but there is a clear provision for this. It states: Programme budget format means a budgetary document which presents the medium-term objectives of a budgetary organisation that require the relevant financing, expenditure under budget programmes that, once implemented, will lead to the achievement of objectives, as well as performance indicators that include information necessary to measure the results achieved and the implementation of the budget programmes.

[13] Ordinance on the conditions to be met by investment projects financed by government loans and the projects applying for financing under a state guarantee and the procedure for their consideration, adopted by the Council of Ministers Decree 337 of 2015.

[14] The Bulgarian open data portal was announced in September 2014. It was originally launched by the Obshtestvo.bg Foundation, a non-governmental organisation. In 2017, 149 new data sets were published on the portal in the domains of health, crime and justice, education, finance and accountability, environment, and tourism (https://www.europeandataportal.eu/en/news/bulgaria-expands-its-open-data-portal).

Implementing shared services in the UK central government: A five-year progress report using longitudinal bureaumetrics

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This article uses bureaumetric methods and five years of data on the UK civil service to test several key claims about shared service implementation on a larger scale. It begins by examining organisational dualisms and the promises and challenges of shared services. It then describes the United Kingdom's case, and develops the bureaumetric method for assessing reform progress. Finally, it presents the findings from the study and discusses implications for research and practice.

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JEL codes: H50, H61

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Introduction

The trade-offs in performance typically observed between large and small organisations, and the dilemmas that these present for businesses and public services alike, have long been familiar to reflective practitioners, organisation theorists, and scholars of management and public administration (Gulick, 1937[1]; Kruisinga, 1954[2]; Simon, Smithburg and Thompson, 1958[3]; Evans and Doz, 1990[4]; Hood and Jackson, 1991[5]). Small, specialised organisations seem, on the whole, more likely to be task-focused, responsive, manageable and accountable. But, on the downside, they often lack the "critical mass" necessary to develop the scale and scope economies, technical capabilities, and inter-task co-ordination found in large, multipurpose bureaucracies Developing some way of accommodating at once the advantages of each mode of collective endeavour, while minimising its downsides, remains one of the most pressing concerns of contemporary organisational design (Turner, Swart and Maylor, 2013[6]).

The current popularity of so-called "shared services" reforms illustrates both the necessity and the difficulty of finding such a "middle road." With this approach, generic organisational activities – like procurement, accounting, human resources or legal counsel – are consolidated and shared between multiple partners, while other mission-specific work is left untouched (Strikwerda, 2014[7]). Although critics fear that, in effect, this reproduces centralisation "by the back-door," with a significant loss of local control over critical resources, advocates claim that such a design preserves the merits of decentralised management while reducing its inefficiencies (Quinn, Cooke and Kris, 2000[8]; Bergeron, 2003[9]; Selden and Wooters, 2011[10]). The intended compromise seems to rest on developing collaborative rather than controlling relations between providers and users, creating provider incentives for customer satisfaction, and using technology to streamline inter-organisational communication.

Following extensive adoption in the private sector (Gospel and Sako, 2010[11]), governments worldwide have embarked upon significant programmes of shared services reform (Paagman et al., 2015[12]; Elston and MacCarthaigh, 2016[13]). But can the promises of this organisational compromise be realised in practice? A growing volume of case research and reports by public auditors illustrates the many implementation challenges (Economic Regulation Authority, 2011[14]; UK National Audit Office, 2012[15]; UK National Audit Office, 2016[16]; Chesterman, 2013[17]; Meijerink and Bondarouk, 2013[18]; Knol, Janssen and Sol, 2014[19]; Boon, 2018[20]; Boon and Verhoest, 2018[21]). Low uptake among agencies, defection by early adopters, failure to share beyond the organisation's immediate network and the duplication of shared activates in-house have all undermined reforms in particular instances. Yet no studies establish the generality of these case-level observations quantitatively. Selection bias, imprecise measurement and lack of comparisons between service types may be distorting assessments of implementation challenges.

Consequently, this article uses bureaumetric methods (Hood and Dunsire, 1981[22]) and five years of data on the UK civil service to test several key claims about shared service implementation on a larger scale. A novel method is developed for measuring service-level consolidation across this polycentric governance system by observing changes in the distribution of specialist personnel across organisations over time. This is applied to 6 civil service specialisms (commercial, digital, finance, human resources, internal audit and legal) and more than 80 departments and agencies for the period 2012-17 to assess progress over the first 5 years of the UK government's shared "professional services" policy (UK Cabinet Office, 2012[23]). Results indicate that, even by the end of this period, the gap between intentions and practice was large, although it varied greatly across service types and, to a lesser extent, over time. Moreover, contrary to received wisdom, proximity of partners is not always necessary to build shared services.

The article begins by examining organisational dualisms and the promises and challenges of shared services. It then described the United Kingdom's case, and develops the bureaumetric method for assessing reform progress. Finally, it presents the findings and discusses the implications for research and practice.

Dilemmas of organisational design

Recognition of the need for organisations to operate with both the agility and enterprise of the small, autonomous entity and the scale and scope economies, technical capabilities and co-ordination typically the preserve of large bureaucracies, is not new (Gulick, 1937[1]; Kruisinga, 1954[2]; Simon, Smithburg and Thompson, 1958[3]). But achieving such a compromise is difficult. While many individual trade-offs may be at stake – formalisation-flexibility, stability-inertia, innovation-control (Evans and Doz, 1990[4]; Hood and Jackson, 1991[5]) – the problem is epitomised by the well-known tendency for large enterprises to cycle between centralised and decentralised forms. In the United Kingdom, the "super ministries" of the 1970s were followed by the small, task-specific agencies of the 1980s and 1990s, which in turn were significantly reversed by "de-agencification" after the mid-2000s (Hood and Dunsire, 1981[22]; Elston, 2013[24]) – an almost complete cycle between "gigantism" on the one hand and "small is beautiful" on the other. Similar patterns are evident elsewhere (Verhoest et al., 2011[25]), leading Davis et al. (1999, p. 12[26]) to conclude that administrative reforms commonly resemble "a pendulum constantly swinging from centrist to decentrist solutions, from consolidation to fragmentation."

Of course, structural oscillation of this kind is not solely determined by organisational dualisms. Responsibility also rests with weakening institutional memory within government (Corbett et al., 2018[27]); problems with training and accountability in the management consulting industry (O'Mahoney and Sturdy, 2016[28]); the politics of administrative reform (Ryu, Moon and Yang, 2020[29]); and the human predisposition for fashions and (superficial) novelty (Best, 2006[30]). Nevertheless, the incompatibility of multiple equally desirable prescriptions for effective management explains at least some of the reform flux. As Hood and Jackson (1991, p. 18[5]) recount: "Administrative doctrines are often contradictory. For each doctrine suggesting that we should do x rather than y, there tends to be another doctrine arguing that we should do y rather than x." This basic constraint on managerial decision making, unearthed in the early years of organisational theory by Gulick (1937[1]) and others, led Herbert Simon (1946[31]) to dismiss such formative scholarship as unscientific "proverbs of administration." But the continuing impact of such dilemmas on organisational behaviour testifies to both the perceptiveness of that early generation of executive-scholars and the intractability of these design problems.

Opinion varies on the likelihood of finding any stable compromises between competing administrative doctrines. For Hood (1976[32]), this rests on whether particular design tensions are true dilemmas, with one objective traded-off against another in equal measure, or simpler "non-linearities," where some "fine tuning" is possible. For others, it is clear that organisations can handle dilemmas satisfactorily, albeit in an uncontrolled fashion. Gulati and Puranam (2009[33]) find that, in certain conditions, firms can transcend dualisms by implementing frequent reorganisations. During processes of change, organisational inertia means that old and new structures are observed simultaneously, producing a transient – and serendipitous – "ambidexterity" in firm behaviour (see also Turner, Swart and Maylor (2013[6])). Similarly, students of public management reform frequently observe the "layering" of new ideas on top of old, producing "hybridisation" (Christensen and Lægreid, 2011[34]; Polzer et al., 2016[35]). Moreover, occasional "breakthroughs" in organisational design claim to effect more deliberate and controlled compromises between opposing doctrines. "Matrix" designs, for instance, were branded a middle-way between functional and project structures (Galbraith, 1971[36]). Adoption of computers in organisations was also once expected to foster a new balance between oversight and discretion (Myers, 1967[37]). However, whether contrived solutions such as these truly harmonise fundamental inconsistencies remains contested (on discretion and technology, for instance, see Zouridis, Van Eck and Bovens (2020[38])).

The shared services approach

Collaboration, customer service, technology

To its proponents, shared services provide a new, compelling answer to the old centralisation-decentralisation dilemma (Bergeron, 2003[9]; Ulbrich, 2008[39]). According to Selden and Wooters (2011, p. 349[10]), this is "a *blended model* which addresses challenges associated with dominantly decentralized and centralized … systems" (emphasis added). Though often presented as a "new organisational form" (Herbert and Seal, 2012[40]; Bondarouk, 2014[41]), from a historical perspective the idea contains much that is recognisable. Indeed, the provision of generic support functions from one organisation to many is distinctly unoriginal in government, where finance ministries and civil service departments often assumed this role during the pre-1980s heyday of large, centralised public bureaucracies (Bozeman, 1987[42]; Barzelay, 1992[43]). And yet, the practice of sharing is unfamiliar to a whole generation of public servants, after reforms of the 1980s and 1990s dismantled many of those centrally provided functions in pursuit of greater managerial autonomy (Peters, 1996[44]). Moreover, the phrase shared services is contemporary, replacing the historic term "centralised" or "common services." And while easily dismissed as superficial rebranding, this lexical change does indicate the first potential novelty of the approach: collaboration.

Traditionally, "common services" were criticised for controlling frontline resources without adequate knowledge of, and sympathy for, diverse local circumstances (Barzelay, 1992[43]). Not only did this produce illogical decisions (from a frontline perspective, at least), but the resulting external constraints on local discretion prevented managers from assuming greater personal responsibility for organisational performance (Elston, 2017[45]). Shared services thus attempt to achieve economies of scale through partnership rather than imposition, with "user" organisations retaining effective influence over functions provided to them. Sharing is intended as a "collaborative strategy" (Bergeron, 2003, p. 3[9]), involving the "joint development of preferences" by user and provider (Boon, 2018, p. 101[20]). This means local choice about what functions are shared and with whom, and genuine involvement in provider decision making to ensure that "power and influence … is dispersed" (Selden and Wooters, 2011, p. 354[10]). Furthermore, while old common services often became a tool for oversight authorities like finance ministries to exercise control over line agencies, shared service providers should focus "strictly on the delivery of service, with no policing … that is, there is no enforcement of corporate policy" (Bergeron, 2003, p. 3[9]).

Although intuitively appealing, this first possible novelty of "collaboration" may be hard to operationalise in practice. Diversity of preferences among customer agencies with differing policy goals and pressures is likely to eventually require top-down imposition of "corporate" solutions (Ulbrich, 2008, p. 38[39]). Furthermore, Simon, Smithburg and Thompson (1958, pp. 284, 286-287[3]) long ago exposed the "myth" that "auxiliary units 'serve' line units but do not 'control' them," casting doubt on both the originality and feasibility of achieving a true "service ethos" today. Such fallacies perpetuate because they "help to bridge a gap between the way people feel they should be treated in organizations and the way they are actually treated. … [The myth] conceal[s] the fact that centralization of auxiliary activities does reduce the self-containment and the authority of line departments."

Although collaborative relations could be difficult to achieve in practice, the desired rebalancing of power towards service users may be reinforced by incentivising providers to offer good customer service – the second potential novelty. As Bergeron (2003, p. 21[9]) explains:

> *Real competition … [motivates] employees to keep customers delighted, as opposed to simply satisfied. Unless the divisions and departments … at least have the real option going through other sources, the shared services model devolves into a centralized model….*

"Service-level agreements" containing penalties for underperformance and the option to "exit" to alternative suppliers, payment on a per-item basis and use of performance metrics are all intended to ensure that "increased customer orientation [is] one of the hallmarks of shared services" (Schwarz, 2014, p. 130[46]).

But, again, there are practical difficulties. Oversight agencies may prevent exits if deemed damaging to the collective interest (for instance, if it reduces overall scale and efficiency). And disentangling complex administrative systems from one provider and shifting to another is difficult and expensive, despite the "plug-and-play" rhetoric favoured by consultants. Thus, users may still become "locked in" to inefficient partnerships that provide no easy escape and little incentive for improvement.

Lastly, the extensive role envisioned for information communications technology is the third and most promising claim to novelty with shared services (Cooke, 2006[47]; Selden and Wooters, 2011[10]; Meijerink and Bondarouk, 2013[18]). Process automation and electronic communications reduce labour requirements considerably, but the level of expertise and investment required often necessitates inter-organisational pooling to deliver such innovations (Elston, MacCarthaigh and Verhoest, 2018[48]). However, debate continues over whether technology is truly empowering or simply exerts new levels of control over staff and citizens given the added inflexibility of bureaucratic procedures that are enforced by computer power, not simply executive authority (Zouridis, van Eck and Bovens, 2020[38]). Furthermore, switching between providers becomes especially difficult when services are technology-intensive, since a lack of "interoperability" makes changing software platforms particularly costly.

Implementation in a polycentric system

While it thus seems that much of the novelty of shared services has been exaggerated, and many practical questions remain about the claimed compromise between centralisation and decentralisation, there is little doubt that the large-scale reforms currently being pursued by governments worldwide represent a significant departure from recent history. Common services were systematically dissolved into smaller, localised units during the 1980s and 1990s (Peters, 1996[44]). Administrative practices diverged between organisations in the same government, and a generation of public servants grew used to wielding some (limited) freedom to manage resources locally. The overall effect, as Brunsson and Sahlin-Andersson (2000[49]) report, was to turn government departments and public agencies into more "complete" organisations, with clearer organisational boundaries, local goals and independent resources. "Whereas before, the state could perhaps be described as a single organization, albeit consisting of many sub-units, its construction is now a kind of polycentric network consisting of many separate organizations" (Brunsson and Sahlin-Andersson, 2000, p. 730[49]). Of course, aspects of "New Public Management" have subsequently been reversed or subjected to layering and hybridisation (Christensen and Lægreid, 2011[34]). But polycentrism – that is, "multiple centres of semiautonomous decision-making" (Carlisle and Gruby, 2019[50]) – persists. And it is because of this continuing fragmentation, and growing concerns with its attendant diseconomies, that governments have recently looked to shared services.

However, implementation of reforms has not proven straightforward (Knol, Janssen and Sol, 2014[19]; Elston and MacCarthaigh, 2016[13]). As Boon (2018, p. 97[20]) observed, "governments are struggling … and the record of failed shared service experiments is considerable." Case research and reports by public auditors have documented the kinds of challenges involved. Three chief observations are summarised below.

1. **Delayed, non-linear, incomplete or abandoned consolidation.** Much evidence suggests that shared services adoption takes far longer than planned. Sometimes, local resistance is the cause (Boon and Verhoest, 2018[21]); otherwise, it is technological difficulties (Elston and MacCarthaigh, 2016[13]). Reform progress can also be stop-start if initial "low-hanging fruit" precedes more complex consolidations that require greater technical design or negotiations between partners. And reform trajectories can be non-linear if early adopters become dissatisfied and withdraw (Economic Regulation Authority, 2011[14]; UK National Audit Office, 2016[16]). The outcome may be either that reforms are incomplete compared with initial proposals, or are abandoned entirely, as happened twice in Australia (Economic Regulation Authority, 2011[14]; Chesterman, 2013[17]).

2. **Local rather than global partnering.** Another frequent critique is that partnerships are not sufficiently extensive to generate the envisioned economies of scale. Many critics blame a lack of ambition in the types of partnerships formed. Parochialism – partnering among closely related organisations – is thought to be irrational if back-office administration is indeed "generic" regardless of policy or cultural differences. But "local" rather than "global" sharing may arise due to path dependency from prior arrangements (Elston and MacCarthaigh, 2016[13]); a preference for familiar partners who are more trusted and easier to monitor (Schwarz, 2014, p. 147[46]); the expectation of greater individual influence in smaller scale collaborations (Dixon and Elston, 2020[51]); or because such organisations are in superior-subordinate relations (like ministries and agencies) where participation can be mandated top-down.
3. **Variations by service type.** Similarly, reform enthusiasts argue for the model's applicability to a greater range of activity than often occurs, again to increase scale and scope. Studies often differentiate between "administrative" and "professional" services, principally on the basis of their routineness (Ulrich, 1995[52]; Selden and Wooters, 2011[10]). Knol, Janssen and Sol (2014[19]) suggest that these different service types face differing challenges during implementation. But detailed comparison of multiple services has not so far been undertaken.

Altogether, this body of evidence explains the range of challenges that can arise when attempting to adopt shared services in "polycentric" central and state governments. But it is of limited use in forming an overall assessment of implementation progress. First, qualitative data say little about how widespread the observed problems are. Selection bias is a clear risk, especially when drawing inferences from audit reports which deliberately focus on failure. Second, there is imprecise measurement. Qualitative data reveal the mechanisms facilitating or inhibiting reforms, but not the overall effect. Third, qualitative research allows only relatively small-scale comparisons – whether over time or between service types or organisations. As a result, patterns within, and causes of, implementation failure are underexplored.

These limitations motivate the present study, which uses quantitative and time-series personnel data for a large, fragmented civil service system to test some of the received wisdom on shared services adoption. Given the evidence presented above, the focus is on:

- overall implementation progress
- the trajectory of reforms over time
- the balance between "local" and "global" partnering
- comparison of different service types along the above parameters.

Shared services in the United Kingdom

A vanguard in the New Public Management movement, the UK government decentralised considerably during the 1980s and 1990s. Although some reforms have subsequently been reversed, this backtracking is incomplete (Elston, 2013[24]; 2017[45]). Moreover, the sheer scale of central government, with more than 440 000 civil servants working in some 100 organisations in 2012 (the start of the analysis), means that polycentrism continues unabated. Shared services first entered reform discussions in the mid-2000s (Gershon, 2004[53]). The focus was on transactional administration, like payroll and accounts payable. Sharing was encouraged, but not forced, and emerged largely within departmental "families" (i.e. departments and subordinate agencies) (UK National Audit Office, 2012[15]). After the global financial crisis of 2007-08 and a change of government in 2010, reforms were extended. Fewer service providers would work cross-governmentally, with user participation more or less compulsory (UK Cabinet Office, 2012[54]). Moreover, from 2012, the same logic would apply to analytic and professional work, not just transactional tasks, so that "sharing … become[s] the norm" (UK Cabinet Office, 2012, pp. 12-13[23]). These "professional" services are the empirical focus below.

The UK government provides a good context for the research. Its reforms are ambitious in terms of the range of services and diversity of organisations included, and its polycentrism provides a suitably challenging environment in which to observe implementation difficulties. Sufficient time has lapsed since reforms began to allow longitudinal analysis, and high-quality official statistics describe the machinery of government in sufficient detail to track the changes (see below). Lastly, access had already been negotiated for qualitative fieldwork on this set of reforms (currently underway), allowing for a triangulation of research findings in the future.

The period 2012-17 is chosen because Schwarz (2014[46]) regards shared services as "mature" after five years, and because there was much disruption to government after 2017 as preparations for leaving the European Union intensified. Professional services are the focus because they allow clear differentiation of and comparison between multiple activities, can be analysed using personnel data (since there is limited automation) and are largely unrepresented in existing shared services research. Six professions are selected: commercial, digital, finance, human resources, internal audit and legal. These provide functions required by most organisations regularly (unlike, say, medicine), but vary on other attributes (professionalisation, history, etc.) relevant for the separate qualitative analysis.

Data and methods

Existing literature suggests a number of potential methods for quantifying inter-organisational collaboration (Gray, 2000[55]; Provan and Sydow, 2008[56]). Resource sharing is a specific, tangible manifestation of the often-diffuse concept of "collaboration," which narrows down the possibilities greatly. The first option is to code service-level agreements. But such documentation is not always available, up-to-date or reflective of actual practice. The second is to survey officials (Schwarz, 2014[46]; Aldag, Warner and Bel, 2019[57]; Elston and Dixon, 2019[58]). This may elicit a more informal and "on-the-ground" perspective, but response rates are typically low, longitudinal surveys are costly and respondents can focus on superficial organisational "presentation." Moreover, with both the coding and survey approaches, any quantification of "degree of sharing" could be crude, inconsistent among agencies/agreements and of low ecological validity. Financial data on the value of services purchased provides a third, more promising alternative (Shrestha and Feiock, 2011[59]). Expenditure data improve precision and comparability. But they are often unavailable, and are affected by the investment cycle (for instance, periodic technology upgrades). Moreover, payments say nothing about activity *retained* in purchasing organisations after the collaboration has commenced. For these reasons, a novel approach is developed below, drawing on bureaumetrics.

Hood and Dunsire (1981[22]) coined the term "bureaumetrics" to describe the quantitative study of government bureaucracies using "unobtrusive" data (like budgets, personnel records, organisation charts) and a census rather than sample approach. The aim was to provide an alternative to "impressionistic judgements" about the machinery of government (Hood and Dunsire, 1981, p. 5[22]). Key advantages are that more organisations can be studied with comparable data than is typically the case with other methods, relations between entities within the same administrative system can be explored, and "unobtrusive" metrics are unaffected by data collection processes. The downsides relate to data availability, "fit" with research purposes and the risk of capturing more formal than informal aspects of organisational behaviour.

Bureaumetrics provide a research orientation rather than a specific method. Among the techniques used by Hood and Dunsire, "concentration ratios" measure what proportion of a larger whole occurs in a specific organisation or unit; for instance, the proportion of the total civil service employed in the largest cabinet departments (Hood, Huby and Dunsire, 1985[60]). Because specialists (lawyers, auditors) are members both of their employing organisation and of a wider government "profession" (the larger whole), and because sharing should lead to specialists concentrating in fewer "provider" organisations, professional concentration ratios provide a way of observing shared service progress. Thus:

Over time, sharing should lead to professionals become less dispersed/more concentrated across government.

Moreover, without any sharing, the number of professionals employed by an organisation should be a function of agency task and size. All else equal, larger entities have bigger operations and a greater need of support services. Conversely, if functions are shared, the relationship between organisational size and professional concentration should weaken, with some organisations employing many professionals and others just a few or none, regardless of operational size. Thus:

Over time, sharing should lead to professional concentration and organisational size becoming less correlated.

This bureaumetric approach has the following advantages. First, as with financial data, quantification by personnel numbers is consistent across organisations and service types. But unlike inter-departmental payments, any non-delegated activity remaining in user organisations is also measured. This helps link changing concentration to inter-organisational delegation specifically, rather than the general increase in professionalisation of the civil service (see below). Second, concentration analysis avoids the need to designate individual organisations as either “suppliers” or “users” of services – since, to avoid monopolies, there are often multiple possible suppliers of services, and these each receive as well as provide services. Third, whereas “births, deaths and marriages” in the machinery of government make it difficult to observe individual organisations for any length of time (Hood and Dunsire, 1981[22]), concentration ratios can be calculated despite changes in individual organisations, so long as the overall scope or “perimeter” of the analysis is consistent (see below). Still, agency mergers will naturally produce some “background” increase in concentration that needs to be accounted for when interpreting the results.

Data preparation and analysis

Five editions of the Civil Service Statistics were obtained in a specially enhanced format from the Office for National Statistics (ONS). This dataset describes the number and attributes (organisation, grade, profession) of government staff in post at 31 March. One department and several agencies were removed from the entire analysis to achieve consistent scope year-on-year. Because observations of < 5 are redacted by the ONS, and because treating these as 0 would overestimate concentration (especially for smaller professions), missing values were replaced with either “3” or “1” based on inspection of the data and differences between reported totals and summed totals. Finally, because one organisation, the Crown Prosecution Service, employs several thousand lawyers in a frontline (rather than support-service) capacity, this was excluded from calculations relating to the legal profession.

Concentration ratios were calculated by dividing the number of professionals employed in an organisation by the total membership of that profession for that particular year. Using an algorithm, this was repeated for each organisation, for all six professions, and for every year between 2012 and 2017. The number of organisations not employing any of each profession was also recorded.

To judge overall concentration and detect changes over time, the distribution of each set of concentration ratios was explored using quartiles. Organisations were ordered by concentration ratio, highest to lowest (positive skew). The minimum number of organisations required to achieve each successive quartile of the total profession was then calculated. (For instance: if a profession is 100-strong, what is the fewest organisations required to achieve 25 professionals, then 50, then 75, then 100?) Again, this was repeated for all six professions, and for each year of the analysis, using an algorithm. The results were graphed in

a series of heavily adapted box-and-whisker plots (explained below), and arranged chronologically by profession in order to observe trends over time (Figures 24-29, first bar in each pair).

To test the relationship between concentration ratios and organisational size, the proportion of the total civil service (professionals and generalists) employed in organisations comprising each quartile of the professional distribution (identified above) was calculated. (For instance: if the most concentrated 25% of a profession occupies just two organisations, what proportion of the overall civil service do these two organisations employ?) Again, this was repeated for each quartile of each profession in each year, and the results were graphed (Figure 30).

Finally, to test whether professionals are shared "globally" across government or "locally" with near neighbours, the initial concentration analysis was repeated using new "family" concentration ratios. These sum professionals within all organisations associated with a departmental family (defined by the ONS) before again being divided by total membership of that profession at that time (Figures 24-29, second bar).

Graphs

Figures 24-29 each consists of a line graph and a series of clustered stacked bar charts. Lines relate to the secondary axes and track the total size of each profession over the period 2012-17 (necessary to identify any coincidence of changes in concentration and increases in professionalisation). Bars are clustered two per year and correspond to the primary axes. The first bar in each cluster describes organisational concentration analysis, the second is for families of organisations (hence their shorter height). Levels in the stacks indicate the minimum number of organisations comprising each quartile. The length of the protruding whiskers depicts the number of organisations/families employing none of the profession. The whisker end points indicate the total number of organisations/families analysed, which fluctuates due to machinery of government change and again helps to infer any expected "background" changes to concentration as a result of agency mergers.

An example will clarify this scheme. According to Figure 24, in 2012 there were ~1 900 commercial professionals (line graph) working in 51 organisations (height of first bar). Thirty organisations (length of whisker) employed no commercial professionals. Just 1 organisation employs the first 25% of the profession (black ribbon of the stack); 4 organisations make up half; about 10 make up the first 75% (light grey ribbon); the remainder is spread across 41 organisations. The top 75% of the profession is concentrated in just 6 families (second bar); the remaining 25% is spread between 18; and 4 families employ none.

Figure 24. Commercial profession size and concentration, 2012-17

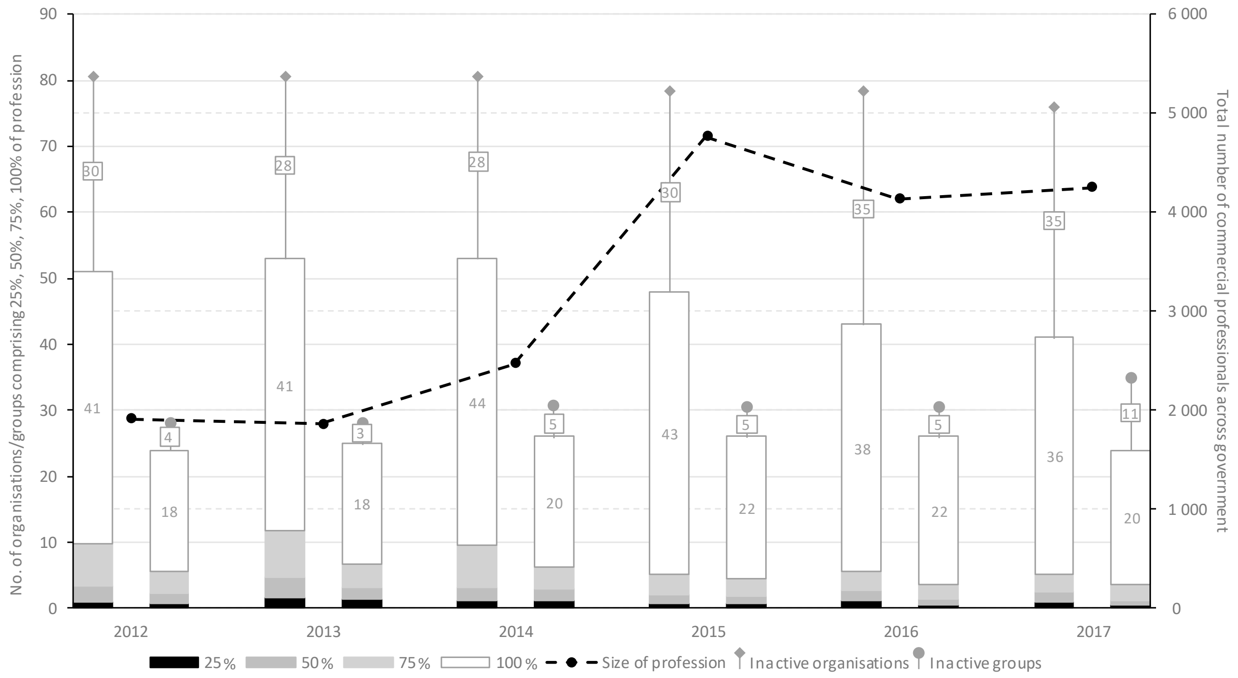


Figure 25. Digital profession size and concentration, 2012-17

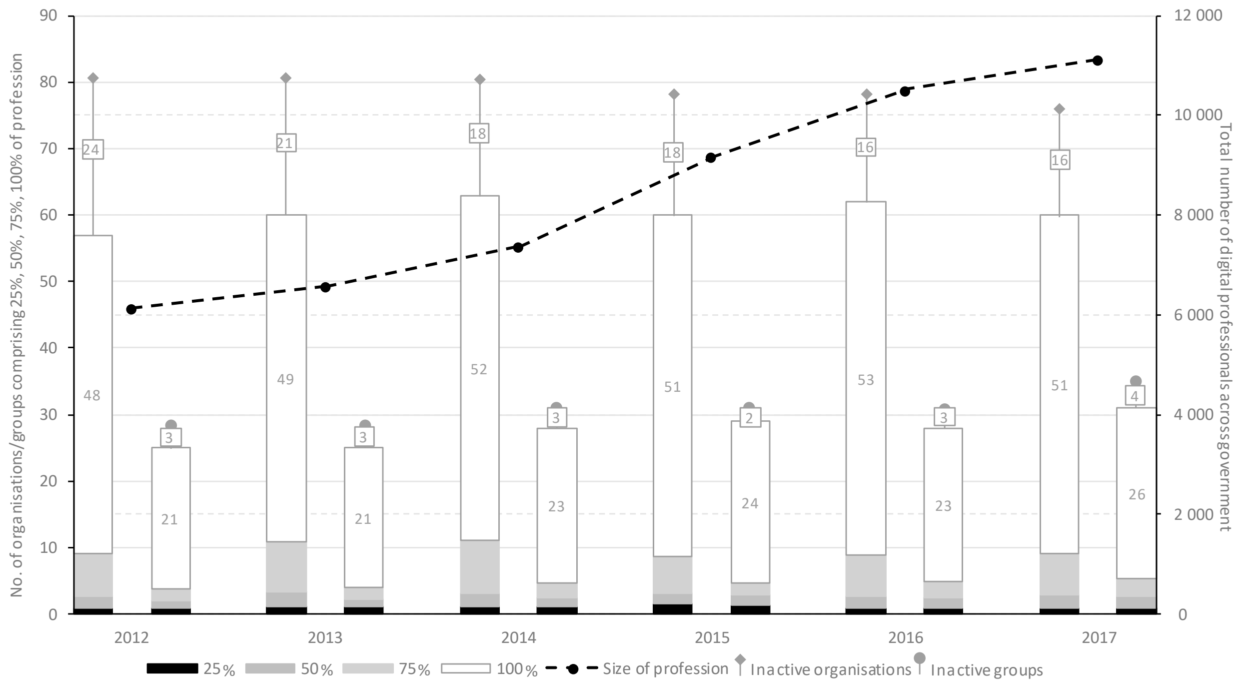


Figure 26. Finance profession size and concentration, 2012-17

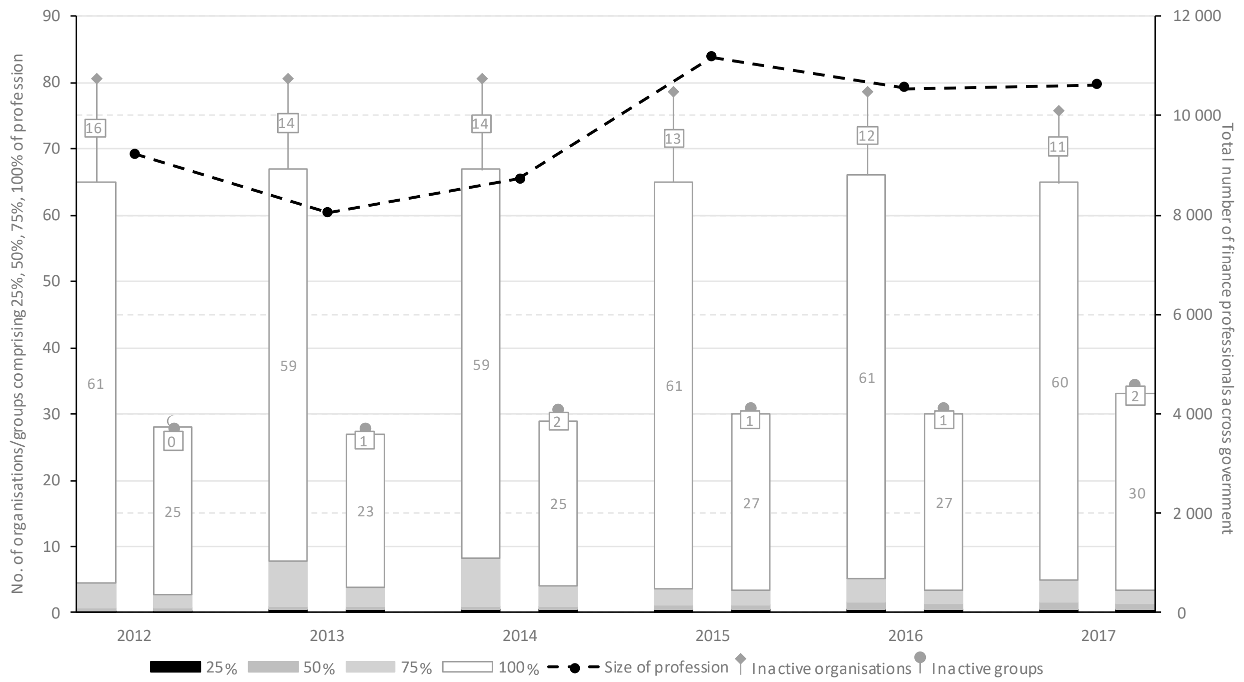


Figure 27. Human resources profession size and concentration, 2012-17

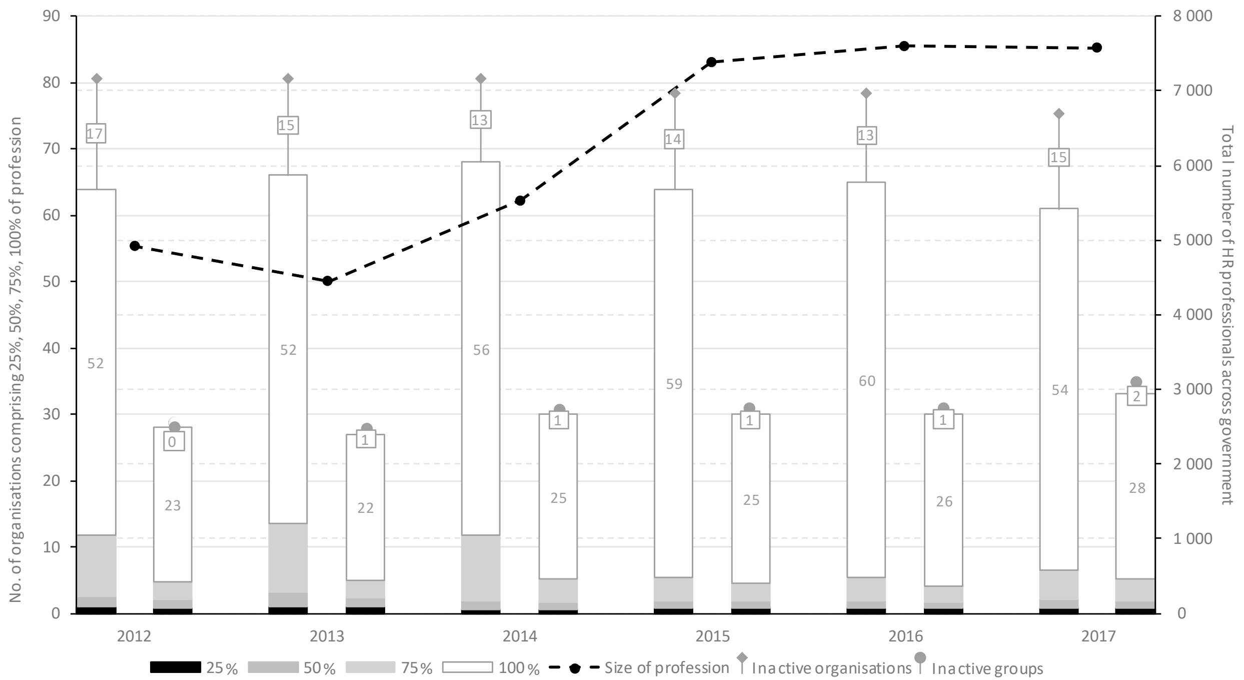


Figure 28. Internal audit profession size and concentration, 2012-17

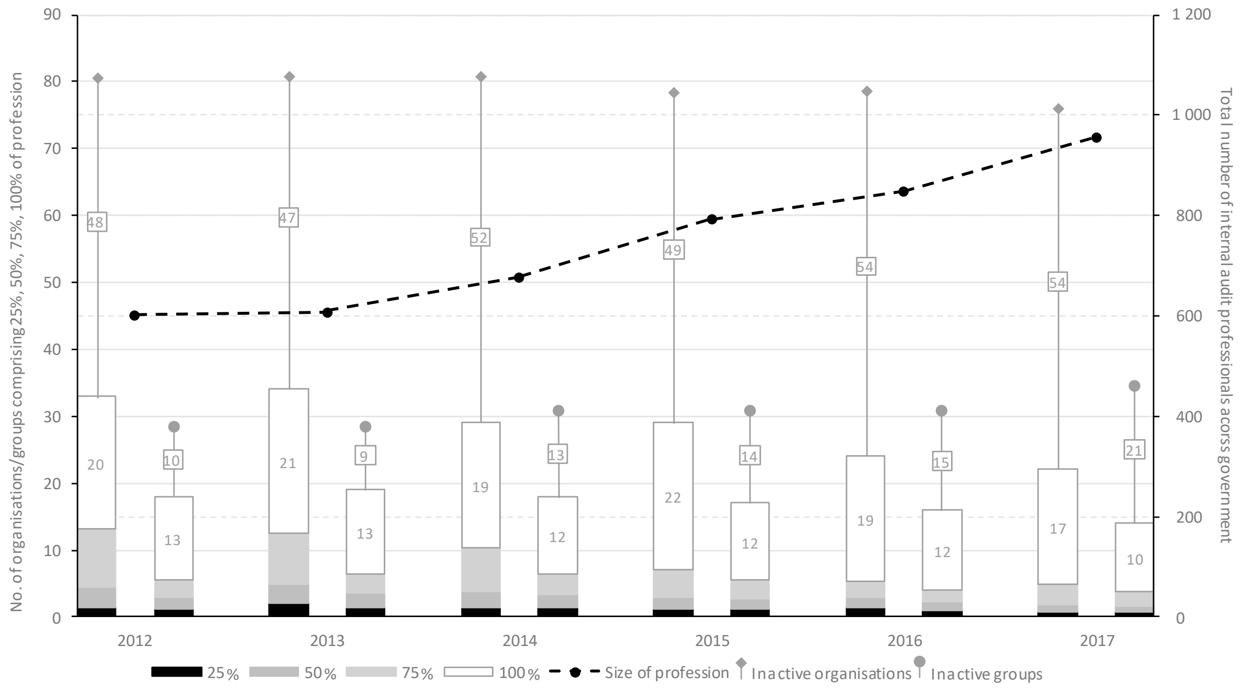


Figure 29. Legal profession size and concentration, 2012-17

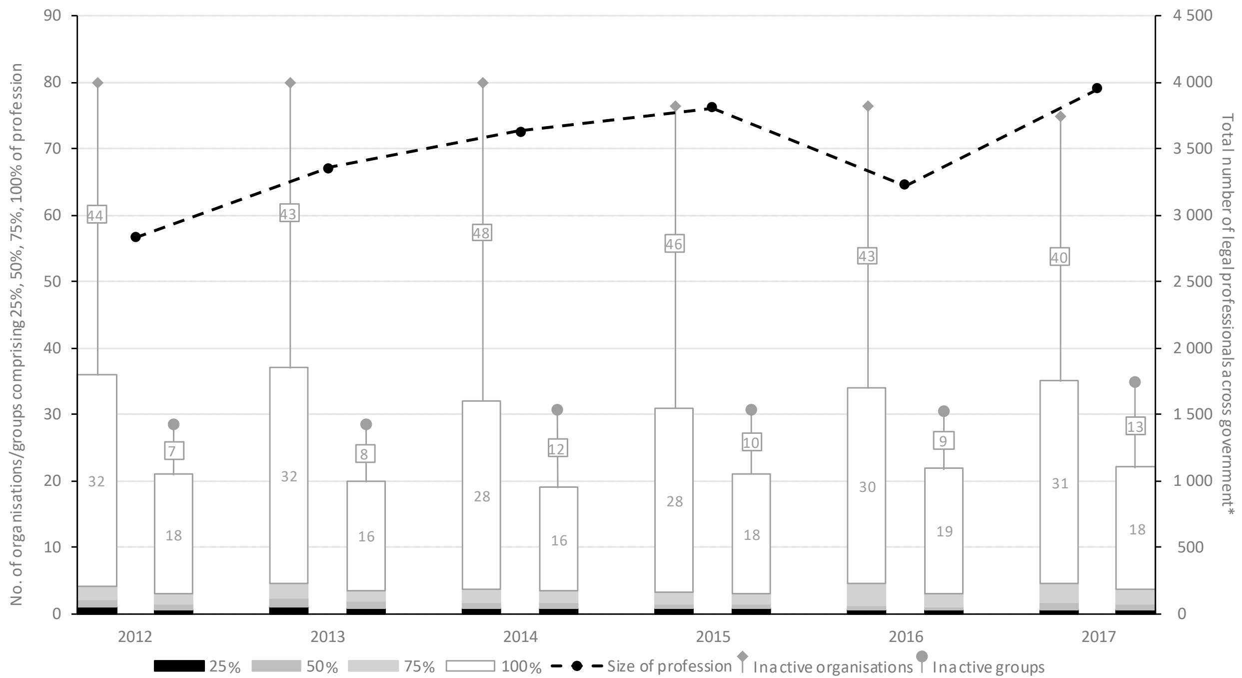
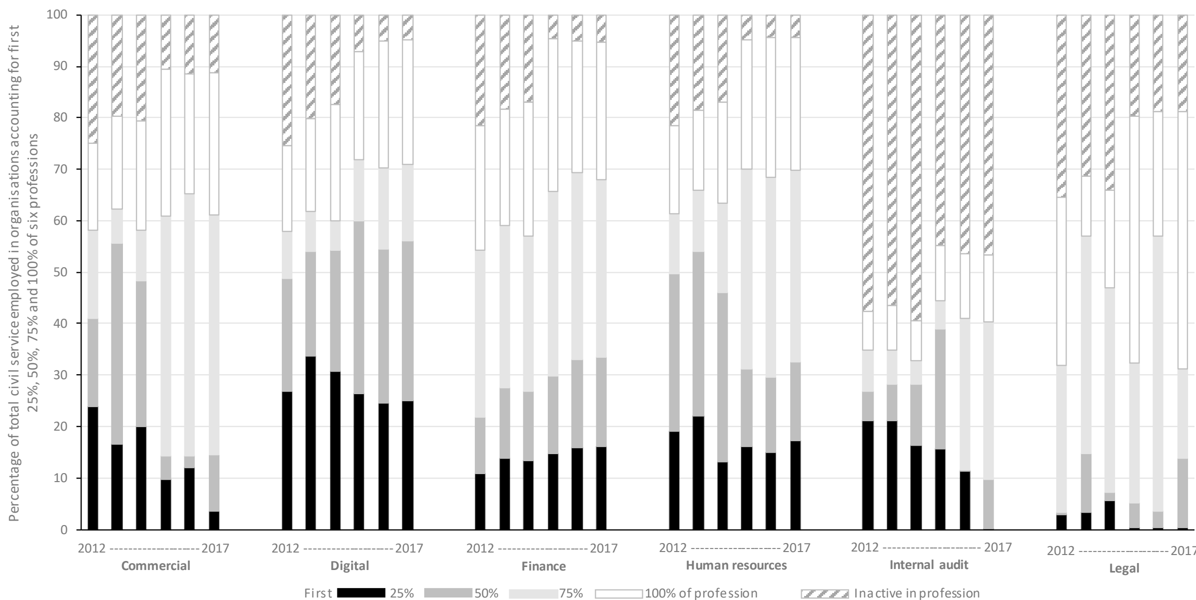


Figure 30. Percentage of total civil service employed in organisations accounting for each quartile of each profession, 2012-17



Note: unlike in Figures 24-29, these bars sum to 100, since the four quartiles plus the inactive group of organisations account for the entire civil service.

Results

Overall implementation progress

The first test of reform progress is whether professions become more concentrated compared with the 2012 benchmarks. This would be indicated by the three lower elements of each stack in Figures 24-29 compressing when inspected left to right, and the final 25% and/or whiskers lengthening. Two graphs fit this pattern. For internal audit, 75% of the profession was employed by 13 organisations in 2012, reducing to just 4 in 2017; and “inactivity,” meaning organisations employing none of the profession, increased by 6 organisations over that time. Similarly, for commercial services, the 75% mark falls from ten to five organisations by 2017; and while outright growth in this profession partly explains this increasing concentration, inactivity also grows by five organisations over the period, suggesting that some inter-organisational delegation has occurred. Human resources, on the other hand, shows a similar compression of the 75% mark, but little change in the final 25% or degree of inactivity, suggesting that increased concentration is due more to the dramatic professionalisation between 2013 and 2015 than to increased inter-organisational sharing. The three remaining professions provide little indication of reform progress. Indeed, levels of inactivity decline consistently for digital and finance, indicating greater dispersion of these specialists across the machinery of government.

The second test is whether the relationship between concentration and organisational size weakens over time. The results are presented in Figure 30, where the height of each element of the stack corresponds to the proportion of the total civil service employed by organisations associated with each quartile of the relevant profession (taken from the analysis in Figures 24-29). If the size-concentration relation weakens over 2012-17, then the length of the first and second elements of the stack will decrease when inspecting each profession left to right, while the third and final quartiles and inactive group will lengthen. As with the first test, this pattern is most displayed by commercial, internal audit and human resources professions.

Between 2012 and 2017, the percentage of the civil service in organisations employing the most concentrated 50% of the commercial profession drops from 41 to 14. For human resources and internal audit, the equivalent figures are 49 to 33, and 26 to 9, respectively. In all three cases, the third and final quartiles lengthen, as expected. Thus, organisational size becomes an increasingly poor predictor of professional concentration for three of the six professions. But the finance, digital and law professions continue to differ.

Trajectory over time

Qualitative evidence suggests that reform progress can sometimes be hampered by a "low-hanging-fruit" effect, where initial rapid consolidation is abruptly halted. This would be indicated in Figures 24-29 by a one-off increase in concentration near the start of the period, with little progress thereafter. Three graphs approximate this pattern (Figures 24, 26 and 27). But each interruption came later than expected (2014-15) and is accompanied by a significant increase in size of the profession, suggesting that particularly rapid recruitment rather than low-hanging-fruit is a better explanation for these results.

Another oft-suggested problem is user defection, where early participants withdraw. Data for the legal profession show some evidence of the U-shaped concentration that would indicate initial participation followed by defection. The greatest concentration for lawyers occurred mid-reform in 2014/15, after which dispersal increases for the remainder of the period. But this pattern is weak, and unique to law.

Balance between local and global partnering

Let's turn to the second bar in each cluster, which describes family-level concentration: if organisations prefer "local" partnering with proximate agencies, increasing organisation-level concentration would be accompanied by no change in concentration measured at the family level, since there is no transfer of personnel between families, only within them. Conversely, if, as the government intended, partnering is "global", then any increase in organisation-level concentration will be accompanied by an increase in family-level concentration, as organisations start receiving services from outside their immediate departmental network. Figure 28 – internal audit – again depicts the greatest progress at cross-governmental sharing: 10 families were inactive in this profession in 2012, rising to 21 in 2017 – the highest of any profession in any year. Commercial services also show evidence of increased cross-governmental sharing, with the number of inactive families rising from 5 to 11 after 2016 and 2017. In this case, growth in family concentration lags behind organisation-level concentration, suggesting that intra-family collaboration is a first step towards more global sharing. Families inactive in the legal profession almost doubled between 2012 and 2017, but this did not coincide with increased organisation-level concentration. For the remaining three professions, there is little change, or even signs of decreased concentration, in the distribution of professionals among families.

Differences between service types

Based on the foregoing analyses, it is clear that reform progress has been uneven across the six professions studied. Internal audit, the smallest profession, is most widely shared by the end of the period (with just 22 "active" organisations in 14 families), and changed the most since 2012. Legal counsel is the second-most concentrated in 2017 (36 organisations, 22 families), but this represents little change from the 2012 baseline. Commercial is third-most concentrated (41 organisations, 24 families), and did show some progress during the period. As for finance, human resources and digital, these professions show little sign of increased inter-organisational or inter-family sharing, and even some evidence of the reverse.

Discussion and conclusions

Existing research into shared service approaches has generated a number of important insights relating to the prevalence and definition of this reform "mega-trend" – as well as its practical challenges. But the literature suffers from several weaknesses, including a failure to sufficiently interrogate the alleged novelty of the model, and a reliance on qualitative data to understand its implementation. This article has started to address both of these issues by first, distinguishing between the "old" and "potentially novel" aspects of current shared service designs; and second, using bureaumetric analysis of UK government statistics to explore quantitatively some of the main challenges alleged of shared services implementation in a large, polycentric system.

The empirical analysis confirms a number of existing ideas, but refutes others – although, of course, it is focused on just one country case, and on professional rather than "transactional" activities. The data confirm that resource sharing among multiple independent decision makers is difficult to achieve, given that only two out of six professions achieved any new consolidation after five years of reform; and, even then, the degree of consolidation remains a long way from the "two to three" providers that may reformers aspire to (in order to maximise scale without too great a risk of monopolies). Of the successes that did occur, these took the entire period to materialise, as Schwarz (2014[46]) predicted. There was limited evidence of defection by early adopters (one possible case), and no convincing sign of a "low-hanging-fruit" effect. Moreover, contrary to fears about "parochialism" in partner selection, in no case did inter-organisational consolidation occur without significant, if delayed, inter-family sharing. Indeed, the star performer in the UK case, internal audit, achieved extensive cross-governmental sharing by 2017, suggesting that any concern for partner selection is not the main barrier to reform.

Given the dramatic differences across the six professions, "task" explanations seem to play a far greater role in influencing reform progress than hitherto recognised, though it is for the ongoing qualitative work accompanying these bureaumetrics to investigate this fully. Did the centre of government push some reforms harder than others? Do varying levels of trust in, or external regulation of, the professions help explain the willingness of departments and agencies to delegate service provision? Is it about how professions are organised: a stand-alone department headed by a permanent secretary (like the Government Legal Department) versus a division within an overseer like the Cabinet Office (where fear of central interference may be greater)? Alternatively, does the role that these services fulfil in individual organisations help explain adoption patterns? Does financial advice need to be "closer to home" and more contextualised than, say, legal advice, where the law can be interpreted regardless of context? Or is there a collective action problem, where organisations with high-quality internal services are unwilling to share in a larger pool for fear of diluted quality. Perhaps it is a supply-side issue, with some professionals unwilling to despecialise in terms of the substantive (policy) focus of their work? Finally, maybe some of the dilemmas mentioned at the start of this paper – between agility and enterprise on the one hand and scale and co-ordination on the other – are less acute, or more easily resolved, for some service types, leading to greater willingness to reform. These are all questions to explore in future research.

The concluding message for practitioners is that success with shared services appears to be extremely hit-or-miss. Robust evidence on the causes of reform delay and adverse outcomes remains incipient. In the meantime, policy makers should regard this approach as a long-term strategy rather than a quick win, and recognise that lofty promises about bridging a hitherto unbridgeable divide between centralised and devolved organisations are unlikely to be met. Nonetheless, given the extent of adoption for several of the professional services examined here, despite the multiple veto points in the United Kingdom's polycentric system, it seems possible that senior practitioners regard sharing as adding value in certain circumstances.

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OECD Review of the Office for Budget Responsibility in the United Kingdom

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This review examines the successes and challenges for the United Kingdom's Office for Budget Responsibility. It discusses its institutional context, its resources, its publications and underlying methodologies, and its impact on the public debate.

This review was originally published on 24 September 2020 and reflects the situation at that time. This version has been reformatted and lightly edited from the original to be in line with the *OECD Journal on Budgeting* guidelines.

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Overview and recommendations

The Office for Budget Responsibility (OBR) was set up in 2010 to provide independent economic and fiscal forecasts and analysis of the public finances of the United Kingdom (UK). It quickly built a solid reputation for independent, credible, high-quality analysis. Moreover, outside of the United Kingdom, the OBR has earned the respect of its peer institutions and is considered by many as a model independent fiscal institution (IFI).

At ten years old, The OBR has become a fixed part of the UK's institutional landscape. The OBR's institutional maturity is evident in how well it has weathered the latest periods of political instability. Its agility and the importance of its contribution to the public debate have been evident most recently in its response to the COVID-19 crisis, as well as how it deftly handled Brexit analysis in a non-partisan fashion, factoring that careful analysis into its forecasts and other reports.

The OBR is well governed with strong, competent leadership, supported by a highly capable and professional staff. Despite growing pressures on its mandated work, it has managed to deliver its remit within its resource constraints. Unlike many of its peer IFIs, the OBR has good access to information, guaranteed in legislation and reaffirmed through memoranda of understanding (MoU) and good working relationships.

The OBR's publications are of high quality, meeting and surpassing international standards. It has achieved the goal of reducing bias in the official economic and budgetary forecasts. Stakeholders widely praise the OBR for bringing greater fiscal transparency.

The success of the OBR's focused communications strategy can be seen across different entry points to the public debate and it stands out among peer IFIs in terms of media coverage. Since the two previous reviews in 2014 and 2015, the OBR has increased the accessibility of its materials and is making greater use of online and social media channels. Nevertheless, the majority of engagement is with the OBR's flagship report, the semi-annual Economic and Fiscal Outlook (EFO), with much less attention paid to other core reports.

Stakeholders also identified several ongoing and potential risks for the OBR:

- **Exceptional circumstances.** It is important that the government commit to well-set-out timetables for the forecast and policy scrutiny process that it then observes – deviating from them because of 'exceptional circumstances' should not become the norm. Recent events have exposed a grey area in the OBR's legislation as it is unclear how the OBR should proceed should the Chancellor not commission two forecasts during the financial year or if there is no budget in that period.
- **Mission creep.** Because of the reputation it has built, there continue to be calls for the OBR to take on additional responsibilities, for example costing opposition policies and evaluating the environmental – as well as economic and fiscal – impact of policies. This reflects positively on the OBR's success over its history. However, it risks drawing the OBR into areas where it does not currently have sufficient capacity or expertise, creating confusion about the organisation's role, and diluting its effectiveness at carrying out its current remit. Even if a significant increase in resources was to be provided for undertaking new tasks, it could change the character of the OBR from the focused and agile institution it is today.
- **Change in leadership and staff turnover.** The current OBR chair, who is highly regarded by stakeholders, will step down in October 2020, following two five-year terms. His communications acumen has been an important element in building trust and confidence in the OBR. The two previous reviews of the OBR identified changes in leadership as a significant risk to the OBR, with some arguing that the organisation's credibility was highly correlated with a few key individuals. This risk appears to have been mitigated as the OBR has matured and established a robust institutional culture and identity. The replacement of the first two members of the Budget

Responsibility Committee, and the smooth appointment process for the incoming chair, has provided assurance to stakeholders. In addition to changes in leadership, there are concerns around staff turnover, as the OBR has a narrow pipeline of future staff to draw from, particularly when it comes to fiscal experts.

- **Greater hostility or indifference to independent scrutiny by government.** The OBR has operated under three prime ministers and four chancellors (although it has yet to experience a change in the governing party). There is currently broad-based support for the OBR across the political spectrum, but confidence in management of the United Kingdom's public finances could easily be undermined if the current or a future government were to impede the independent scrutiny provided by the OBR or were to be less supportive of its role. In particular, the OBR could be sidelined by a government that was less committed to fiscal discipline and transparency; that questioned the integrity and professionalism of its forecasts and judgments because it took a very different view on how the economy operates and how fiscal policy affects the UK economy; or that simply did not wish the evidence base and likely consequences of its policy decisions to receive proper scrutiny.

A summary of the main recommendations follows:

1. The Charter for Budget Responsibility should be revisited to clarify how the OBR should proceed if the chancellor does not commission two forecasts during the financial year or if there is no budget in that period. Ideally, and barring exceptional circumstances, the dates for the government's fiscal events and accompanying OBR forecasts should be fixed in legislation.
2. The temporary resources provided for Brexit analysis should be made permanent (as assumed in the current budget allocation) to ease resourcing pressures and remove the appearance of a potential source of Treasury leverage. It will be important to avoid additional mission creep to allow the OBR to continue to fulfil its remit successfully within its limited resources.
3. The OBR should do more to engage with the community of macroeconomic and fiscal experts outside government, for example through its working and discussion paper series, and should be given the necessary additional resources to do so. It should seek to build interest in fiscal issues, in part to help to develop a broader pipeline of future staff. This is in line with recommendations from previous reviews.
4. The OBR should explore how to broaden engagement with its reports outside of the Economic and Fiscal Outlooks. In particular, there remains scope for the OBR to engage further with the UK Parliament's Treasury Select Committee (TSC) and to enhance awareness of the OBR's role and encourage greater use and understanding of the OBR's outputs by a wider group of parliamentarians.

Introduction and Review Methodology

Under the legislation that created the Office for Budget Responsibility, the organisation is required to commission an external review every five years. The OBR's non-executive members, Sir Chris Kelly and Bronwyn Curtis OBE, asked the OECD to lead this review, assessing the OBR's performance and adherence to internationally agreed principles of best practice for independent fiscal institutions.

This is the third external (and second non-government) review of the OBR since it was set up in 2010. In 2014, Kevin Page, former Canadian Parliamentary Budget Officer, led the first independent external review (Page, 2014[1]), which concluded that the OBR had "laudably achieved the core duties of its mandate" and "succeeded in reducing perceptions of bias in fiscal and economic forecasting". A second review, commissioned by the Chancellor of the Exchequer and headed by Sir Dave Ramsden, the Treasury's Chief Economic Adviser, drew explicitly on the Page Review and resulted in an expansion of the OBR's statutory responsibilities and an increase in its resources (HM Treasury, 2015[2]).

The methodology for this review is anchored in the OECD *Principles for Independent Fiscal Institutions* (OECD, 2014[3]) and a subsequent evaluation framework elaborated within the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). Page pioneered the use of this framework in his review of the OBR.

Principle 9.1 of the OECD Principles for Independent Fiscal Institutions states that:

> *"IFIs should develop a mechanism for external evaluation of their work – to be conducted by local or international experts. This may take several forms: review of selected pieces of work; annual evaluation of the quality of analysis; a permanent advisory panel or board; or peer review by an IFI in another country."*

The Network of EU Independent Fiscal Institutions (EU-IFIs) reaffirmed this OECD Principle in its report *Defining and Enforcing Minimum Standards for Independent Fiscal Institutions* (EU Independent Fiscal Institutions, 2016[4]) and reiterated it in its *Network Statement on the Need to Reinforce and Protect EU IFIs* (EU Independent Fiscal Institutions, 2019[5]).

The evaluation framework takes as a starting point internationally agreed standards (e.g. the OECD Principles). As such, the review assesses the OBR against these standards, benchmarks it against peer institutions in OECD countries and, where possible, identifies the difference it has made. The framework covers four main elements:

- **Context**, the institutional setting and mandate of the OBR
- **Inputs**, human and financial resources, access to information and independence
- **Outputs**, the OBR's core products, including effectiveness of the methodology
- **Impact**, of the OBR's work, including effectiveness of communications and stakeholder confidence

The evaluation framework follows a performance framework approach used by governments globally and uses conventional evaluation tools such as stakeholder interviews and peer review.

The review team

The review team included one member from the OECD Secretariat's Budgeting and Public Expenditures Division in the Directorate for Public Governance; two international peers, one from the United States (US) and the other from the Slovak Republic; and one local peer from the Institute for Government (United Kingdom). The review also draws upon contributions from other relevant members of the OECD Secretariat and peers within the PBO Network. A mission to London, UK, for stakeholder interviews was undertaken in May 2019 (see Annex 1.A).

Context

Introduction

This section examines recent events and challenges for the OBR in its current operating environment. It also covers the context within which the OBR was originally established, its mandate, governance arrangements and relationship with stakeholders. Finally, it assesses progress made since previous reviews.

The OBR was set up in 2010 to provide independent economic and fiscal forecasts and analysis of the United Kingdom's public finances. It quickly built a solid reputation for independent, credible, high-quality analysis. It is widely credited with bringing greater transparency to the public finances and enriching the fiscal policy debate. A decade on, stakeholders view the OBR as a fixed and highly valued part of the United Kingdom's institutional landscape.

Uncertainty since the Brexit referendum

Since the United Kingdom's referendum vote to leave the European Union in June 2016, the OBR has been operating in a highly unusual and unstable political environment. This has included uncertainty and instability around the timetable of the fiscal policy events alongside which the OBR presents its forecasts, as well as the conditioning policy assumptions on which they should be based. At successive fiscal events, the timescales envisaged in the MoU with the Treasury have not been adhered to.

In October 2018, the OBR noted "repeated failures" on the Treasury's part to stick to the agreed timetable. As a result, the OBR was not properly able to factor all policy changes into the forecast. The OBR instead used ready reckoner estimates to incorporate these late policy decisions. The OBR clearly set out these problems in the foreword to its October 2018 EFO, allowing the TSC to pick up on the issue in its inquiry. While it is commendable that the OBR made every effort to produce the best quality forecast possible despite the late arrival of information, this type of accommodation may run the risk of encouraging ministers and government departments to push the boundaries.

On 14 October 2019, the government asked the OBR to produce a forecast at very short notice, before scrapping its plans for a 6 November budget and calling a snap general election for 12 December.[1] The OBR announced its plans to go forward with a technical restatement of its March public finance forecast, bringing it into line with current Office for National Statistics (ONS) statistical treatment but not incorporating any other new data, judgements nor an economy forecast update. The Cabinet Secretary – the country's most senior civil servant – advised against publication on the night before its planned release, deeming it inconsistent with the Cabinet Office's General Election Guidance that prevents government departments and public bodies (such as the OBR) from making announcements that could influence an election during a campaign.[2] This led some commentators to question whether the OBR's independence was being infringed upon. The OBR accepted the Cabinet Secretary's advice and published the release on 16 December, as soon as was practical after the election. The episode highlights the fact that the Guidance was not written with the role of "watchdog" bodies like the OBR in mind, as distinct from conventional government departments and agencies that act for ministers. This should be addressed prior to the next election.

While the OBR is viewed as having ably (if conservatively) handled the uncertainty around Brexit, the issues encountered in 2018 and 2019 highlight how important it is that the new government return to the practice of well set out budgetary timetables that it then observes – deviating from them as a result of "exceptional circumstances" should not become the norm. To maintain public confidence, the OBR should continue to highlight when ministers and departments fail to adhere to agreed principles on timing and openness.

In addition, the cancellation of the Budget (and the accompanying OBR forecast) exposed a grey area in the OBR's legislation. Article 4(3) (a-b) of the Budget Responsibility and National Audit Act (BRNA) (UK Parliament, 2011[6]), requires the OBR to prepare fiscal and economic forecasts on at least two occasions for each financial year. Article 4.2 of the Charter for Budget Responsibility (HM Treasury, 2017[7]) provides that the "Chancellor will commission the OBR to produce its fiscal and economic forecasts at a particular date, at least twice a year, one of which will be for the Budget". Article 4.21 also requires "The date of any OBR forecast [to] be communicated to the Treasury Select Committee and to Parliament in parallel to the OBR". Yet there are no clear provisions for what should happen if the Chancellor does not commission two forecasts or if there is no budget in that period.

Moreover, in recent fiscal events, the OBR has been notified of a range of potential budget dates without that provisional timetable being communicated publicly to the TSC. The absence of a firm public announcement means that the OBR cannot plan properly with the other government departments involved in the forecast process. There are also concerns that the lack of formal public notification and unclear timetables impact on the ability of the Scottish Fiscal Commission (SFC) to deliver good quality and accurate forecasts.[3]

In light of the above, the provisions in the secondary legislation should be revisited. The current chancellor is reviewing the government's fiscal framework, including changes to the fiscal rules, ahead of the Autumn Budget 2020. The amendments to the Charter that such changes would require would also provide an opportunity to address these ambiguities.

This is also important in light of new uncertainties related to the COVID-19 crisis. While timetables looked to be getting back on track for the 2020 spring budget process, the COVID-19 crisis has immediately brought new challenges and opportunities. On the one hand, the crisis rendered the budget (and the OBR's most recent forecasts) obsolete. On the other hand, the crisis affirmed the value of the OBR to UK stakeholders, as the OBR rapidly produced a suite of COVID-19 scenario analyses and commentary and has since added a "Coronavirus policy monitoring database". In July 2020, it published a modified version of its regular fiscal sustainability report to include medium-term economic and public finance scenarios, long-term projections, and an update of its 2019 analysis of fiscal risks.

Context for the establishment of the OBR

The establishment of the OBR came about, like many other IFIs around the world, in the aftermath of the financial crisis. As the then Chancellor George Osborne put it, the objective was to "remove [from politicians] the temptation to fiddle the figures by giving up control over the economic and fiscal forecast" (HM Treasury, 2010[8]).

There had long been a suspicion that the official economic and fiscal forecasts, which were produced by HM Treasury but ultimately under the control of the chancellor, included a degree of politically motivated wishful thinking.[4] With annual government borrowing having risen sharply during the financial crisis – to a post-war high of around 10% of gross domestic product (GDP) – there was a growing focus on the need for the government to reassure voters and investors that it was committed to repairing the damage done to the public finances. In this context, the opposition Conservative party pledged, in 2008, to establish the OBR if it was elected (BBC News, 2009[9]).

In 2010, the newly elected coalition (Conservative and Liberal Democrat) government set up the OBR on an interim basis and tasked it with providing advice on the arrangements for the permanent OBR. The TSC of the House of Commons also held an inquiry, took evidence and made recommendations. Both informed the subsequent legislation that allowed the OBR to become a statutory body in April 2011. The OBR is a non-departmental public body – that is, a body that has a role in the processes of national government, but is not part of a government department and so operates at arm's length from ministers.

Despite the Labour Party opposing the creation of an IFI while in government, the OBR enjoyed broad cross-party support at its founding and has continued to do so. Indeed, the fact that opposition parties have at several points called for the OBR to broaden its mandate and take on new tasks could be seen as a measure of their confidence in the institution. Although it has experienced a change of government, including very recently, so far the OBR has always operated under a government led by the Conservative Party.

The OBR's legislative foundations lie in the BRNA Act (2011) and are operationalised through the Charter for Budget Responsibility and other supporting documents (see Box 15).

Mandate

The OBR has a clearly defined mandate designed to address the perception that earlier official forecasts were politically biased. The OBR is one of only three OECD IFIs that have responsibility for producing official, independent macroeconomic and fiscal forecasts – alongside the SFC and the Netherlands' Bureau for Economic Analysis (CPB). Following some changes made in response to the 2014 Page Review and the 2015 Ramsden Review, the OBR has six main responsibilities in respect of the UK economy and public finances:

1. Produce economic and fiscal forecasts at least twice every financial year, which must cover at least five future years (or more, at the Treasury's request).
2. Assess the extent to which the government's fiscal targets have been, or are likely to be, achieved alongside each forecast.
3. Assess the accuracy of its previous fiscal and economic forecasts at least once a year.
4. Assess the long-term sustainability of the public finances. Initially, the OBR produced long-term projections for the public finances every year. Following the recommendations made by the Ramsden Review, it now produces long-term projections at least every two years and an assessment of fiscal risks at least every two years.
5. Scrutinise and certify the government's policy costings.
6. Produce an annual report examining the trends and drivers of welfare spending.

The OBR is also now required specifically by legislation to produce forecasts for taxes devolved to Scotland and Wales, and to produce the forecasts of UK government revenues in devolved areas which are used to support tax and social security devolution. The OBR had always had to do this in order to produce comprehensive forecasts for the UK public finances, but now devotes more time and resources to them and has developed more detailed dedicated publications tailored to Scottish and Welsh stakeholders.

Because it is widely respected and trusted, a range of individuals and organisations has called for the OBR's mandate to be widened. To an extent, the OBR has been the victim of its own success. The Page Review cautioned against considering an expansion of the OBR's mandate, in particular around earlier calls for the OBR to cost election manifestos. More recently, the opposition Labour Party has suggested the OBR should examine the climate change impacts of fiscal policy; other organisations have also suggested the OBR should scrutinise plans for public service spending more closely (UK Parliament, 2019[10]). The OBR may not be the best-placed organisation to perform these additional activities and it is not clear that it is necessary to integrate these roles with the production of the economic and fiscal forecasts. The majority of stakeholders interviewed were happy with the OBR's current remit, saying it was important to "draw clear lines" and raising concerns that widening the OBR's remit would "muddy the waters".

Box 15. The OBR's legislative framework

The following documents set out the OBR's formal rights and responsibilities.

The Budget Responsibility and National Audit Act 2011 (UK Parliament, 2011[6]) is the primary legislation that sets out the overarching duty of the OBR to "examine and report on the sustainability of the public finances". The Act also gives the OBR "complete discretion" in the performance of its duties, as long as those duties are performed "objectively, transparently and impartially" and take into account the policies of the sitting government and not alternative policies. The OBR is also required to carry out its functions "efficiently and cost-effectively". The Act states that the Charter for Budget Responsibility can include guidance about when the OBR should produce its analysis, but not the methods that it should use. It also provides the OBR with broad-ranging powers to access "at any reasonable time" all government information – that is, information held by ministers or government departments – that it "may reasonably require for the purpose of the performance of its duty".

The Scotland Act 2012 (UK Parliament, 2012[11]), Scotland Act 2016 (UK Parliament, 2016[12]) and the Wales Act 2014 (UK Parliament, 2014[13]) (and command papers that accompanied them) placed additional responsibilities on the OBR to produce forecasts for taxes and welfare spending that are devolved to Scotland (Scottish income tax, stamp duty land tax, landfill tax, aggregates levy, air passenger duty and aspects of social security) and Wales (Welsh rates of income tax, stamp duty land tax, landfill tax and aggregates levy). In April 2019, the OBR also took on responsibility for producing the official forecasts of the devolved taxes for the Welsh government.

The Charter for Budget Responsibility (HM Treasury, 2017[7]) (April 2011, updated in March 2014, December 2014, October 2015 and January 2017), which is prepared by the Treasury and approved by parliament, sets out the Treasury's objectives for fiscal policy and for the management of the national debt. It requires the OBR to make an assessment of whether the government's policy is consistent with a greater than 50% chance of meeting its fiscal mandate. The Charter also sets out the minimum content the OBR should include in its key publications and the required timing of its forecasts and other publications. For example, the current Charter states that the OBR's forecasts must cover a period of at least five financial years following the date of publication. The Charter also requires the OBR to provide the government with "timely access to the information necessary to reach policy decisions ahead of fiscal policy events".

The Framework Document (HM Treasury and OBR, 2019[14]) (April 2011, updated in April 2014 and March 2019) is signed by the Treasury and the OBR and sets out the broad governance and management framework within which the OBR operates but it does not convey any legal powers or responsibilities.

The Memorandum of Understanding (MoU, April 2011, updated March 2017 (OBR, 2017[15])) between the Treasury, HM Revenue and Customs, the Department for Work and Pensions, and the OBR sets out the normal process for exchanging information. The MoU is not legally binding, but the departments are encouraged to use it as a guide to ensure they fulfil the responsibilities placed upon them by the Act and Charter. The OBR also maintains an MoU with the Treasury on governance arrangements for shared ownership of the macroeconomic model.

Separate MoUs exist between the OBR and the SFC (OBR and Scottish Fiscal Commission, 2019[16]) and the Welsh Government (OBR and Welsh Government, 2019[17]).

Source: Authors, based on public information.

Governance structure, accountability and stakeholder relations

The OBR's effectiveness relies heavily on the organisation – and particularly its senior figures – being trusted by the government, parliament and its wider group of stakeholders. As the Page Review noted, the OBR quickly gained the trust of stakeholders in its early years. The OBR has maintained stakeholders' widespread trust in the quality of its analysis, independence and impartiality. Furthermore, while the first external review of the OBR noted that stakeholders seemed to attach their confidence to "the OBR's senior leadership team and staff", confidence in the OBR's work now seems to be more deeply rooted, and the OBR is seen as having transitioned from being a collection of individuals to an established organisation. This view has been aided by the OBR being scrupulously transparent.

A three-person Budget Responsibility Committee (BRC), comprised of a chair and two committee members appointed by the chancellor subject to the approval of the TSC, leads the OBR. The BRC has executive responsibility to carry out the core functions of the OBR. The chair is responsible for representing the views of the OBR to the chancellor, parliament and the public. The chair is also designated as the Accounting Officer for the OBR, meaning he or she is responsible for the day-to-day operations and management of the OBR and for safeguarding public funds given to the OBR.[5]

Two non-executive members complement the OBR's executive. They are also appointed by the chancellor for a three-year term, renewable once, following a recruitment process and nomination of candidates by the OBR. They ensure that the BRC is constructively challenged in its role, but also supported, providing a bulwark against political interference.

The executive and non-executive committee members sit on the OBR's Oversight Board, which is responsible for ensuring that effective arrangements are in place to provide assurance on risk management, governance and internal control. One non-executive member chairs the Oversight Board and the other chairs its Audit Subcommittee. The Oversight Board meets three times a year, and the OBR publishes the meeting minutes and the corporate and business plans on its website.[6]

The OBR is subject to internal audit in accordance with Government Internal Audit Standards. Its annual accounts are also subject to external audit by the Comptroller and Auditor General.

The OBR is jointly accountable to the Chancellor of the Exchequer and to the parliament (mainly through the House of Commons' TSC).[7] In addition to the TSC's power to veto appointments or dismissals of OBR leadership, the OBR must submit its reports to both the government and the parliament and BRC members testify before the TSC after publishing each forecast. This provides an important forum for airing any concerns that the OBR has, for example if the OBR felt the government was putting it under undue pressure or otherwise failing to adhere to the BRNA Act. Parliament approves the BRNA Act and the Charter for Budget Responsibility and can request additional information from the OBR, consistent with the Act and Charter.

The Page Review identified this dual accountability as unique among IFIs and a risk to the OBR, as it potentially creates a tension in the OBR's programme of work and outputs between serving the executive and serving parliament, the body charged with holding the executive to account. However, most stakeholders interviewed for this second external review felt that these dual reporting lines were effective, since they mean that both the executive and parliament trust the OBR and are invested in the OBR's continuing success.

A minority of stakeholders, including the Shadow Chancellor in the run-up to the 2019 election, have instead called for the OBR to be accountable solely to parliament in order to make it more independent of the government and to give parliament a "way in to challenging the Government" (Shipman, 2019[18]).[8] Others raised concerns about making the OBR part of the challenge between parliament and the executive. One parliamentary stakeholder warned "the Treasury might not trust it as much" if the OBR was solely accountable to parliament and another suggested that this model could provide the opportunity for "a small group of politicians to interfere with the role of the OBR".

Central and devolved government stakeholders

Compared to other IFIs, the OBR is highly reliant on the government departments for input into its forecasts and analysis, notably the EFO. In particular, it relies on HM Revenue and Customs (HMRC) and the Department for Work and Pensions (DWP) for information, expertise and analytical capacity, and to a lesser degree bodies like the Debt Management Office; the Treasury; the Ministry of Housing, Local Government and Communities; and the Department for Education.[9]

There is, in principle, a risk to the OBR's ability to carry out its role if government departments became less co-operative in the future, either as a result of departments or ministers being deliberately obstructive or because of senior civil servants or ministers viewing support for the OBR as a lower priority compared to other competing demands. As regards the Treasury, this risk is mitigated by the fact that the Treasury is also dependent on the work of the OBR, having contracted out the task of producing the official forecasts, and by the fact that since the OBR was created, the Treasury's capacity to produce its own economic and fiscal forecasts has significantly diminished.

The Treasury and the OBR jointly maintain the macroeconomic model that underpins the OBR's forecasts, with governance arrangements for this shared ownership set out in an MoU. However, the OBR has complete freedom over the version of the model that it uses and could choose to adopt an alternative version. The Treasury also provides forecasts for a small number of fiscal components, such as debt interest payments. The HMRC produces forecasts for almost all tax revenues and costings of new tax policies. The DWP produces forecasts for almost all welfare spending and costings for new welfare policies. Many other departments have roles in respect of items of revenue or spending (more commonly spending) for which they have policy or operational responsibility.

In all cases, forecasts provided for the OBR by government departments are based on OBR judgements, assumptions and approved methodologies and the OBR is free to deviate from them if it wishes. The Treasury and the OBR jointly agree on the forecast timetable that governs interactions between them and other departments in the forecast rounds ahead of each fiscal event. The Treasury checks and provides quality assurance of policy costing notes before they are sent to the OBR for scrutiny and proposed revisions, but it does not have the right to do so for forecast returns from other departments.

MoUs underpin the OBR's interactions with the Treasury, the HMRC and the DWP. The OBR also works closely with the ONS, which produces the various public finance statistics on which the OBR's forecasts are based. The OBR and the ONS do not currently have an MoU. Though the relationship has worked well in general, there have been occasions when the OBR has had to anticipate the fiscal consequences of a classificatory decision that the ONS has announced but not yet implemented. As recommended by the Ramsden Review, the OBR and the ONS are in the process of drawing up an MoU, which should help to clarify expectations on both sides.

The OBR's legal framework and the MoUs with relevant government departments and devolved administrations provide a necessary underpinning to its work, but they are not sufficient to allow the OBR to carry out its role easily and fully. Doing so requires maintaining good relationships, both at working level and among senior officials and ministers. These relationships have been somewhat strained in recent years by cutbacks to staffing in all of the government departments, a slight widening of the OBR's remit, and the OBR's increased focus on challenging the modelling and policy costings produced by the DWP and the HMRC. All of these factors have increased the workload for staff in the Treasury, the DWP and the HMRC. So far, they and the OBR have managed to mitigate adverse effects by investing time in developing good working relationships to try to get a clear understanding of the relative priorities of different pieces of work, to spread demands out through the year and to learn lessons when things have gone wrong. In addition, following the Ramsden Review, material was added to the MoU to help guide signatories when the OBR's right of access to information and assistance bumps up against resource constraints for those being called upon.

The OBR has close links to the SFC, whose forecasts for the Scottish economy and public finances depend on some of the outputs of the OBR's UK forecasts, as well as to the Welsh government, for which the OBR produces the official forecasts for devolved taxes. The OBR and the SFC have a statutory duty to co-operate with each other. This is reaffirmed in the fiscal framework agreement and underpinned by an MoU (January 2019).[10] Where helpful, the OBR and the SFC respond jointly to queries from the Scottish Parliament regarding their respective forecasts. An MoU also underpins the OBR's interactions with the Welsh government.

The OBR's relationship with the devolved administrations in Scotland and Wales has evolved considerably over the past nine years and continues to develop as the responsibilities and capabilities of the devolved nations change. The OBR's forecasts of UK Government revenues and expenditure in devolved areas are central to the operations of the fiscal frameworks with both nations. Stakeholders in the devolved nations have found the OBR supportive in providing information and helping to build their analytical capacity. However, some challenges remain, which in part reflect weaker lines of communication and trust between government departments and ministers in Westminster and those in Edinburgh and Cardiff.

The operation of the Scottish Government's fiscal framework will be subject to a review following the provision of an independent report, to both the Scottish and UK governments, by the end of 2021. The OECD's recent review of the SFC (OECD, 2019[19]) noted that it would be prudent for institutions such as the SFC and the OBR to be given an opportunity to provide technical input in the forthcoming review.

Finally, while the OBR has no formal legal relationship with the Bank of England, the OBR sends a staff member to observe the pre-Monetary Policy Committee briefing sessions at the bank; the BRC meets relevant Monetary Policy Committee members and senior staff ahead of each EFO forecast; and the OBR and Bank of England are both represented on several ONS user groups.

Parliamentary stakeholders

Within parliament, the TSC has the most direct contact with the OBR. There is little interaction with other parliamentary stakeholders. The OBR appears before the TSC twice a year to give evidence on the EFO, and has occasionally appeared to speak about policy costings or work on fiscal sustainability. The TSC maintains its own staff of economists who assist in briefing the committee more broadly on OBR analysis. TSC members and staff praise the OBR for its accessibility.

While parliamentarians not on the TSC and members of the public may also benefit from the OBR's analysis, they mostly access it through intermediaries, such as the House of Commons Scrutiny Unit, the House of Commons Library and the media. For these groups, faith in the OBR's rigour and impartiality rely heavily on the appearance of, and statements made, by the BRC.

Non-governmental stakeholders

Organisations outside government make use of the OBR's work and engage with the OBR. They include local think tanks (such as the Institute for Fiscal Studies (IFS), the National Institute for Economic and Social Research, and the Resolution Foundation), non-governmental macroeconomic forecasters, academics, an informed minority of journalists and international organisations (the European Commission, the International Monetary Fund (IMF), and the OECD).

Expert stakeholders overall find the OBR's analysis and reports unbiased, helpful, informative and well-written. They also welcome the high degree of transparency that the OBR provides, including evaluating its own previous forecasting errors and publishing data in easy-to-download spreadsheets on its website. Stakeholders who engage directly with OBR staff noted that they are easy to contact, helpful and constructive.

Box 16. Should there be a Commons Budget Committee?

The UK Parliament has a tradition of relatively weak *ex ante* scrutiny of the budget. Scrutiny has, instead, been focused on *ex post* oversight of the public accounts through the Commons Public Accounts Committee. Unlike the majority of OECD parliaments, the House of Commons does not have a dedicated Budget or Finance Committee to oversee or co-ordinate the budget approval process.

A recent inquiry by the House of Commons Procedure Committee on whether there should be a Commons Budget Committee noted that:

> *"[t]he comparative lack of ex ante financial scrutiny disadvantages the House in its ability to hold Government to account, and lessens the obligation on Government to explain transparently how it decides and embarks upon expenditure." (UK Parliament, 2019[10])*

This lack of scrutiny is manifested in several ways, as noted by the Procedure Committee:

- "Formal scrutiny of annual Estimates is limited, and the resulting legislation passes both Houses almost by default.
- The House has limited opportunities for proper examination of the sums the Government has asked it to appropriate.
- The departmental select committee system does not provide the systematic quality assurance and scrutiny of Estimates which the Government claims is undertaken once its spending plans are presented to Parliament."

The Procedure Committee's inquiry built on the findings of the 2011 Leigh-Pugh report (UK Parliament, 2011[20]) on options to improve parliamentary scrutiny of government expenditure. That report was undertaken at the invitation of the then-Chancellor of the Exchequer, George Osborne, but ultimately no actions were taken on its findings.

In line with the Leigh-Pugh report, the Procedure Committee has recommended in its own report the establishment of a Budget Committee and "increasing overall support available for budgetary scrutiny in the context of the resources available to comparable committees in other OECD states" (UK Parliament, 2019[10]). It was the committee's view that the "House of Commons Scrutiny Unit could, over time, develop into a PBO – the House of Commons Budget Office". A key rationale for recommending a Budget Committee was that it would:

> *"provide consistent monitoring of the implementation of Spending Review plans over the whole period covered by the review, with a focus on how annual spending plans in Main and Supplementary Estimates measure up to Spending Review expectations".*

Currently, a spending review necessitates only the barest amount of parliamentary scrutiny. While the OBR plays a critical role in forecasting how much the government will actually spend given current plans, it does not comment on whether spending offers value for money or is achieving the objectives that the government had for it (Conway, 2017[21]).

The Procedure Committee looked at a potential role for the OBR but concluded that:

> *"[i]t is clear to us that the current statutory role of the Office for Budget Responsibility would not easily enable it to support a Budget Committee. It would not be appropriate for a body intrinsically linked to, albeit distinct from, Government to support a committee of the House.*

While the OBR does produce material of value to parliamentary scrutiny, given where it sits and its already very tight resources, it appears sensible to strengthen the existing House of Commons Scrutiny Unit, which could in turn engage with relevant OBR analysis when it deems appropriate. The Scottish Parliament's Financial Scrutiny Unit already plays a similar role.

Source: Authors, based on public information.

Third parties – particularly the IFS, the Resolution Foundation and a small number of well-informed journalists – are important channels for communicating the OBR's findings to a wider audience. There is also a growing community of informed social media participants (some from academia and the media) who disseminate, comment on and debate its work. The OBR's clear and transparent presentation of information enables these third parties to pick out the most salient issues – for example, occasions (like in Budget 2016) when the government has made decisions to delay or bring forward revenues and spending or pencilled in unspecified spending cuts solely in order to appear to remain on course to meet its fiscal targets.[11] Without them, it seems likely that the OBR's analysis would garner less attention and thus it might be less effective in imposing fiscal discipline on the government.

While the IFS produces some of its own analysis, for example assessing and quantifying the impact of specific new policy measures, some of what the IFS does is to repackage the OBR's work into a more direct contribution to the political debate. The IFS is less constrained than the OBR in what it can say; in particular, the IFS can comment on the merit of the choices the government has made and whether alternative policy options would have been better.

The OBR tracks and reports on stakeholder engagement in its annual reports, which show that it participates in events with a broad range of organisations in the United Kingdom and internationally, although typically on an *ad hoc* basis.[12]

There are concrete examples of how the OBR engages with non-governmental stakeholders; for example, in recent months, the OBR engaged closely with the Resolution Foundation on the latter's series of papers examining the past performance of UK fiscal rules and its proposals for new ones with a greater emphasis on the public sector balance sheet. Nevertheless, some stakeholders raised concerns that the OBR does not engage often or widely enough with the community of macroeconomic and fiscal experts outside of government. Others called for the OBR to do more to use its convening power to connect with the academic community in order to open OBR analysis up to greater scrutiny and challenge, to build interest in fiscal issues, and to help develop a pipeline of future staff. This was an explicit recommendation of the Ramsden Review, but in subsequent negotiations with the Treasury, the funds the OBR sought for "fiscal forecasting community and academic outreach" posts were not forthcoming.

In a similar vein, stakeholders also suggested that the OBR could develop its engagement with universities as a soft recruiting tool by promoting interest in the type of work the OBR does, particularly on the fiscal side, where there is a much smaller pool of experts.

International stakeholders

The OBR is seen as a model internationally and regularly shares experiences with peer institutions and with governments and parliaments that are creating new IFIs or looking to enhance fiscal transparency. The OBR participates in several international IFI networks, including the Network of EU Independent Fiscal Institutions (EU-IFIs, a voluntary network), the EU Network of Independent Fiscal Institutions (convened by the European Commission), and the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO Network). It also contributes to other fora such as the African Network of Parliamentary Budget Offices. Since 2017, the OBR Chair has also served as the Chair of the OECD PBO Network. In these fora, the OBR has contributed to standard setting in the global IFI community and has held critical exchanges on key pieces of work, such as the OBR's first Fiscal Risks Report (FRR).[13]

Progress since previous reviews

The OBR (and in some cases its counterparts) has implemented or partially implemented the majority of the recommendations made in the Page and Ramsden Reviews (Table 18). The upshot of previous recommendations has been increased resources for the OBR (see Section on Resources and independence) and new tasks that are viewed as complementary to, or a natural extension of, its original

mandate (see also Section on Methodology and outputs). Efforts have been made to strengthen the OBR's succession planning and further develop its communications and the accessibility of its materials.

Table 18. Summary of previous review recommendations and progress

Recommendations	Progress	Notes
Page Review (2014)		
It is recommended that the Survey of Parliamentarians be reissued before the end of this session of parliament.	○	The OBR has judged reissuing this survey as having limited value.
It is recommended that long-term succession planning be undertaken to mitigate risks related to the eventual transition of the OBR's senior leadership.	●	The OBR has successfully gone through appointments of two new Budget Responsibility Committee members and a new Chief of Staff. The new government launched the search for the next chair of the OBR on 23 January 2020 and nominated a candidate on 5 June. The Treasury Select Committee confirmed the candidate in mid-July.
It is recommended that a formal fiscal community-wide staff development and rotation programme be established to maximize the talent pool upon which the OBR can draw.	○	No formal rotation programme. Outreach to the fiscal community could be strengthened.
It is recommended that caution be exercised in considering the expansion of the OBR's mandate (e.g. costing certification of opposition manifestos).	●	New work (e.g. Fiscal Risks Report) is directly related to the original mandate.
It is recommended that additional backgrounders be included with the publication of major reports to aid the accessibility of the documents for non-technical readers.	●	Range of publications is robust, with good graphic, non-technical, and web materials.
Ramsden Review (2015)		
Legislation		
The default assumption should remain that the government uses the OBR's economic and fiscal forecasts as the UK's official forecasts.	●	Accepted practice.
The OBR should receive a multi-year budget on a rolling basis, to ensure that its budget extends at least 3 years into the future at any given time.	◖	There are some challenges as the OBR's budget is linked to its parent department. Currently this would mean that the budget would extend beyond the Treasury's spending review settlement. A new settlement has been delayed due to Brexit-related uncertainties.
The government should discuss with devolved administrations opportunities to amend relevant legislation: – to ensure that the OBR has the appropriate information, explanation and assistance to enable it to carry out its functions – to ensure that the OBR provides information on its forecast judgements to the appropriate devolved bodies – similar arrangements should be put in place for 'city deals' involving significant fiscal devolution.	◖	OBR access to information is set out in legislation (Scotland Act 2016 and Wales Act 2017). There have not been any city deals to date that have been considered to involve "significant fiscal devolution".
No changes should be made to the OBR's remit and the underpinning legislation, the Budget Responsibility and National Audit Act, at this stage.	●	
Operating framework		
The government should update the Charter for Budget Responsibility to: – replace the requirement for the OBR to include long-term projections in every edition of its annual sustainability report with a requirement to produce biennial projections – incorporate the requirement for the OBR to produce a regular report on fiscal risks, in line with the recommendations of the IMF's Fiscal Transparency Code; the government should respond formally to the report – incorporate the requirement for the OBR to produce an annual Welfare trends report	●	The Charter was amended in October 2015 to include new requirements for long-term projections and for fiscal risks and Welfare trends reports.
OBR and the signatory departments should review the Memorandum of Understanding (MoU) by September 2016 and where necessary set out additional detail on governance and processes, including steps to strengthen and formalise the arrangements around the signatory	●	The MoU was updated in 2017.

departments' compliance with the MoU and delivery of the forecast and policy costings.		
The OBR and ONS should agree a set of principles on the anticipation of pending ONS classification decisions or changes to the forecast.	●	The OBR set out its approach in its 2015 Economic and Fiscal Outlook and details forecast items on its website that the ONS refers to regularly.
The OBR, devolved administrations and bodies and fiscally significant 'city deals' should consider agreeing Memoranda of Understanding to reflect developments in fiscal devolution in the UK.	●	The OBR has MOUs with the Scottish Fiscal Commission (January 2019) and the Welsh government (April 2019). No "fiscally significant" City Deals have been introduced to require further MOUs.
That the OBR and HM Treasury Framework document remains appropriate. It should be reviewed periodically.	●	The joint OBR-Treasury Framework document was reviewed and amended in 2019.
Forecast performance and capability		
The Treasury, working in partnership with the OBR, should put in place a succession plan to help manage the transition of the BRC membership. To deliver this: – the Treasury should seek candidates both within the UK and internationally – there should be increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates.	●	A new BRC member was appointed on close to a full-time basis.
The Treasury should ensure that the OBR is adequately resourced to build resilience in producing the forecast in light of the eventual movement of experienced staff, and to meet the other recommendations of this review.	◖	Staffing increases in recent years judged as mostly adequate, but the continued increase in demand for OBR work warrants additional staffing.
The Treasury should ensure that the OBR is adequately resourced to support methodological development and research and take an explicit convening role in the UK's (small) fiscal forecasting community.	○	Resources to support methodological development and research remain limited. The fiscal forecasting community would still like to see the OBR play a more explicit convening role, but funding was not provided for this recommendation of the Ramsden Review.
The OBR should work more systematically with forecasting departments on model development, building on existing practice to ensure key models are fit for purpose. Forecasting departments should ensure model development is adequately resourced. To deliver this: – the OBR should publish an assessment of the performance of individual forecasting models and their priorities for model improvement – the existing MoU for the macroeconomic model and steering group should be extended to include the main fiscal forecasting models – the forecast timetable and process should be reviewed to ensure sufficient time is allocated for quality assurance across all departments.	◖	The OBR has worked in a productive fashion with departments, but resources are limited. Treasury capacity for model maintenance has declined. The OBR publishes annual forecast evaluation reports that now report on a systematic review of forecast models undertaken each year. No new fiscal forecast model MOUs have been established. The fiscal forecast timetable has sometimes been quite compressed, reducing opportunities for quality assurance review. Exceptional circumstances have recently put the forecast timetable under even greater pressure.
Transparency and accessibility		
The OBR should conduct more in-depth analysis on specific fiscal sustainability issues.	●	The OBR published a series of papers in 2016 on fiscal sustainability and long-term projections in a 2017 report. Other reports (2017) touched on sustainability in areas such as migration and drivers of health spending.
The OBR should improve the accessibility of its website, taking into account user feedback, to increase the prominence of key material and improve the organisation of data and information.	●	The OBR has worked to improve its website. It can be easily navigated. Major reports have online "at-a-glance" sections and "in-depth" areas.
The OBR should increase accessibility of its material to a wider range of stakeholders, engaging through more diverse communications approaches, and making better use of online and social media channels.	●	The OBR uses multiple communications channels and has increased the use of animations, charts, tweets and infographics for key messages.
The government and the OBR should ensure greater availability of tools and data to allow third parties to cost alternative policy options.	●	The OBR makes its macroeconomic model available on line and publishes considerable data and information on its analytic methods, as well as interactive tools, such as the welfare spending dashboard.
The OBR should undertake more systematic engagement with Parliamentarians and devolved administrations to enhance understanding of the OBR's role and encourage greater use of the OBR's output.	◖	The OBR's focus remains on the Treasury Select Committee in the UK House of Commons. It also appears before the Finance Committees of the Scottish and Welsh parliaments. It has very occasionally appeared before other UK parliament select committees.

Note: ● yes; ◖ partial; ○ no.

Less progress has been made in other areas. While parliamentarians and parliamentary staff praise the accessibility of the OBR, parliamentary engagement has remained fairly limited. Non-governmental stakeholders continue to raise concerns that the OBR does not engage often and widely enough with the community of macroeconomic and fiscal experts outside government and have called for the OBR to do more to use its convening power. As noted above, this was an explicit recommendation of the Ramsden Review, but the funding that the OBR sought for this activity was not forthcoming.

Adherence to international standards

In line with the Page Review, this review finds that the OBR meets the OECD Principles for Independent Fiscal Institutions, many of which are reaffirmed by the EU-IFI Minimum Standards (Table 19). This high level of adherence to agreed global standards provides the OBR with legitimacy among its peer institutions and should provide confidence to its stakeholders in the United Kingdom. Moreover, the OBR has a particularly strong reputation for independence among its peers (see Section on Resources and independence).

Table 19. Does the Office for Budget Responsibility meet the OECD Principles for Independent Fiscal Institutions (assessment of legislation and practice)?

OECD Principle	Is there a related EU-IFI standard?[1]	Assessment	Notes
1. LOCAL OWNERSHIP			
1.1 Broad national ownership, commitment and consensus across the political spectrum. Models from abroad should not be artificially copied or imposed.		●	Broad cross-party support.
1.2 Local needs and the local institutional environment should determine options for the role and structure of the IFI.		●	
2. INDEPENDENCE AND NON-PARTISANSHIP			
2.1 Does not present its analysis from a political perspective; strives to demonstrate objectivity and professional excellence, and serves all parties. IFIs should be precluded from any normative policy-making responsibilities to avoid even the perception of partisanship.		●	The Charter states that the OBR should not provide normative commentary on the particular merits of government policies.
2.2 The leadership of an IFI should be selected on the basis of merit and technical competence, without reference to political affiliation. The qualifications should be made explicit.	✓	●	
2.3 Term lengths and number of terms that the leadership of the IFI may serve should be clearly specified in legislation along with dismissal criteria and process.		●	Members of the BRC are appointed for a five-year fixed term, renewable once, subject to the approval of the chancellor and the TSC. BRC members cannot be dismissed without the agreement of both the chancellor and the TSC.
2.3 The leadership's term should optimally be independent of the electoral cycle.	✓	●	Renewal dates for the BRC members were staggered and do not currently align with the parliamentary electoral cycle.
2.4 The position of head of the IFI should be a remunerated and preferably a full-time position. Strict conflict-of-interest standards should be applied.	✓	●	The chair is a full-time position. Other members of the BRC have had the option of working on a full-time or part-time basis in order to attract a diverse range of candidates.
2.5 The leadership of the IFI should have full freedom to hire and dismiss staff in accordance with applicable labour laws.	✓	●	OBR staff are part of the civil service. However, according to the BRNA Act and the Framework document, within the arrangements approved by the Minister for the Civil Service, and in line with the Civil Service Management Code, the OBR has responsibility for the recruitment, retention

			and motivation of its staff.
2.6 Staff should be selected through open competition based on merit and technical competence, without reference to political affiliation, in line with civil service conditions.		●	
3. MANDATE			
3.1 The mandate should be defined in legislation, including types of reports and analysis they are to produce, who may request them, and timelines for release.		●	It will be important going forward that timelines are respected.
3.2 IFIs should have the scope to produce reports and analysis at their own initiative and autonomy to determine their own work programme within their mandate.	✓	●	The Charter gives the OBR complete discretion to decide the content of its publications and its own work programme of research and additional analysis.
3.3. Clear links to the budget process should be established within the mandate.		●	
4. RESOURCES			
4.1 The resources allocated to IFIs must be commensurate with their mandate.	✓	●	Resources remain modest, but the OBR has so far been able to secure additional resources in line with expansions to its remit.
4.1 The appropriations for IFIs should be published and treated in the same manner as the budgets of other independent bodies.	✓	◖	The OBR's budget is formally part of the Treasury's budget, but separately identified within it and published in "delegation letters". The Framework document provides that the OBR can submit an additional memorandum alongside that of the Treasury to parliament in order to "protect the independence of the OBR and ensure transparency in the resources that are provided to the OBR".
4.1 Multiannual funding commitments may further enhance IFIs' independence and provide additional protection from political pressure.		◖	The OBR's budget has typically been set out three or four years in advance, including indicative settlements for later years. This practice is not guaranteed legislatively.
5. RELATIONSHIP WITH THE LEGISLATURE			
5.1 Mechanisms should be put in place to encourage appropriate accountability to the legislature.	✓	●	
5.1 The budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work.	✓	◖	
5.2 The role of the IFI *vis-à-vis* the parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation.		●	
6. ACCESS TO INFORMATION			
6.1 The IFI should have full access to all relevant information in a timely manner.	✓	●	The Act gives the OBR "right of access (at any reasonable time) to all Government information which it may reasonably require for the performance of its duty". MoUs between the OBR and government departments further underpin access to information.
6.2 Any restrictions on access to government information should be clearly defined in legislation.	✓	●	No restrictions in place.
7. TRANSPARENCY			
7.1 The IFI should act as transparently as possible, including full transparency in its work and operations.		●	In addition to its work, the OBR publishes communications between the OBR, ministers and officials in government departments.
7.2 IFI reports and analysis (including underlying data and methodology) should be published, made freely available to all and sent to parliament.		●	The OBR's reports are laid in parliament and are published on line with accompanying spreadsheets containing

			the data in each.
7.3 The release dates of major reports and analysis should be formally established, especially in order to coordinate them with the release of relevant government reports and analysis.		●	Consistent with acting transparently, the OBR's work programme is published according to a regular and predictable timetable, with release dates set out in advance.
7.4 IFIs should release their reports and analysis, on matters relating to their core mandate on economic and fiscal issues, in their own name.		●	
8. COMMUNICATIONS			
8.1 IFIs should develop effective communication channels from the outset.	✓	●	The OBR has invested in communications from the outset. In its corporate and business plans, the OBR continues to have as an objective "maintaining and developing its communications with external stakeholders".[2]
9. EXTERNAL EVALUATION			
9.1 IFIs should develop a mechanism for external evaluation of their work.	✓	●	The Act provides for the OBR to be reviewed at least once every five years. This is the second non-governmental external review of the OBR. The OBR maintains an Advisory Panel of economic and fiscal experts.

Note: ● yes; ◖ partial; ○ no.

1. This table has been updated from previous OECD independent fiscal institution reviews to reflect the newer EU IFI standards released in January 2019. See: https://www.euifis.eu/download/statement_reinforcing_and_protecting_ifi_s.pdf.

2. See: https://obr.uk/docs/dlm_uploads/OBR-Business-plan-2018-19.pdf.

Conclusions

A decade old, the OBR is a fixed part of the UK institutional landscape and viewed as having a solid reputation for independence and producing high-quality analysis. It is vital that the OBR is, and is seen to be, impartial and free from political interference. The organisation's focus on being scrupulously transparent has played an important part in building its reputation. The OBR should jealously guard this culture of transparency to help head off any potential future threats to its standing.

The OBR has also built a strong reputation internationally. The OBR's leadership and staff regularly engage with, and promote co-operation among, peer IFIs. This review, as well as previous reviews, finds that the OBR globally meets the OECD Principles for Independent Fiscal Institutions. This adherence to agreed global standards provides the OBR with legitimacy among its peer institutions and should provide confidence to its stakeholders in the United Kingdom.

The OBR's dual accounting lines to the chancellor and to parliament had the potential to create tension in the OBR's work, but appear in practice to have helped ensure that both trust and support the OBR. The OBR is currently viewed favourably across the political spectrum and by a range of external stakeholders.

Because of the reputation the OBR has built, there continue to be calls for it to take on additional responsibilities. This reflects positively on its success over its history. However, it risks drawing the OBR into areas where it does not currently have sufficient capacity or expertise, creating confusion about the organisation's role, and diluting its effectiveness at carrying out its current remit.

Despite the current broad-based support for the OBR, there remains a risk that confidence in management of the United Kingdom's public finances could be undermined if the current or a future government were to hamper the independent scrutiny provided by the OBR or were to be less supportive of its role. The United Kingdom's political landscape has been volatile since the referendum on EU membership in June 2016 and the debates around Brexit (and now the added uncertainty due to the COVID-19 pandemic) continue to put economic forecasters in the spotlight. In particular, the OBR could be sidelined by a

government that was less committed to fiscal discipline and transparency; that questioned the integrity and professionalism of its forecasts and judgments because it took a very different view on how the economy operates and how fiscal policy affects the UK economy; or that simply did not wish the evidence base and likely consequences of its policy decisions to receive proper scrutiny. The OBR could help head off these risks by continuing to emphasise the importance of fiscal transparency for good policy and informed public debate, and enlisting supportive stakeholders in that effort. It should continue to be clear about the implications of government policy for fiscal sustainability, explaining its forecasting methodology and judgments clearly, and – as far as possible – engaging with external experts to test and refine its forecasting models and judgments.

Recent events highlight the importance of ensuring that the government commits to well set-out budgetary timetables that it then observes; deviating from them because of “exceptional circumstances” should not become the norm. Secondary legislation should be revisited to clarify how the OBR should proceed should the chancellor not commission two forecasts during any financial year or if there is no budget in that period. Ideally, and barring exceptional circumstances, the dates for the government’s fiscal events and accompanying OBR forecasts should be fixed in legislation. To maintain public confidence, the OBR should continue to highlight when ministers and departments fail to adhere to the agreed principles on timing and openness.

The OBR maintains good working relationships with government stakeholders despite pressures related to cutbacks to staffing in all departments it engages with, a widening of the OBR’s remit, and the OBR’s increased focus on challenging the modelling and policy costings produced by the DWP and the HMRC. The OBR and key government departments should continue to ensure a clear understanding of the relative priorities of different pieces of work, to work to spread demands out through the year, and to learn lessons when things have gone wrong.

The OBR should do more to engage with the community of macroeconomic and fiscal experts outside government, and should be given the necessary additional resources to do so. It could use its convening power to connect with the academic community, in order to open OBR analysis up to greater scrutiny and challenge, to build interest in fiscal issues, and to help develop a pipeline of future staff.

Resources and independence

Introduction

This section looks at the extent to which the OBR has sufficient funding and human resources, as well as whether these resources are predictable and sustainable. It also assesses the OBR’s access to information, and independence to deliver its mandate.

So far, the OBR has managed to deliver its remit with the resources provided, and has been largely successful in seeking additional resources when necessary. Nevertheless, it remains a lean organisation with a fairly tight budget, and pressures on its mandated work have continued to grow over time. In its 2018 Annual Report, the OBR cautioned that:

> *“The potential loss of experienced staff, an increase in the demands placed on our staff without corresponding increases in resources, and the effective maintenance and development of the forecasting infrastructure, such as the macroeconomic model, are risks that the Board and management of the OBR are focused on mitigating.” (OBR, 2018[22])*

The OBR has good access to information, guaranteed in legislation and reaffirmed through an MoU with HM Treasury, the DWP and HMRC. Moreover, the OBR has successfully built strong working relationships with leadership and staff in these departments, which helps facilitate access to information. These provisions have been replicated for the OBR in Scotland and Wales in respect of fiscal devolution.

Despite some potential challenges, stakeholders view the OBR as highly independent and credit its leadership with instilling a strong culture of independence within the institution from the outset.

Funding

Principle 4.1 of the OECD Principles for Independent Fiscal Institutions states that:

- an IFI must have "resources commensurate with its mandate to fulfil it in a credible manner" and that
- "[t]he appropriations for IFIs should be published and treated in the same manner as the budgets of independent bodies… in order to ensure their independence. Multiannual funding commitments may further enhance IFIs independence..." (OECD, 2014[3]).

Although it is a non-departmental public body, the OBR is a part of the Treasury Group and funded through the Treasury's budget. As such, the OBR must request its annual funding from the Chancellor of the Exchequer (who has overall responsibility for the Treasury Group). This creates a potential risk to the OBR's budget and independence. In practice, however, several protections are in place to mitigate this risk and the most obvious alternative institutional form – that of a non-ministerial department – would also require its budget to be negotiated with the Treasury.[14]

The OBR's budget is separately identified within the Treasury's budget and published. According to the Framework Document, the OBR can submit an additional memorandum to parliament alongside that of the Treasury in order to "protect the independence of the OBR and ensure transparency in the resources that are provided to the OBR". Finally, in practice, the OBR's budget is typically set out three or four years in advance (including indicative settlements for later years), although this is not guaranteed legislatively. This is an important and very unusual protection in the United Kingdom not enjoyed by most arm's-length bodies.[15] So far, the OBR has never been threatened with budget cuts.

Both the Page and Ramsden Reviews cautioned that the OBR would likely need additional resources to deliver fully on its mandate. The Ramsden Review also recommended that the OBR take on new tasks that required additional resources; some but not all of these were then funded.

In line with these recommendations, the OBR has continued to grow and now commands significantly greater human and financial resources compared to its early years when it was arguably under-resourced (Table 20). Most of the increase in resources in recent years was temporary resources for Brexit analysis, although this has now been baselined through to 2022-23 (albeit indicatively in the last two years).

Table 20. The Office for Budget Responsibility's budget, 2011-20

Million GBP

Year	Pay	Non-pay	Total
2011-12	1.25	0.46	1.75
2012-13	1.28	0.45	1.77
2013-14	1.27	0.46	1.77
2014-15	1.47	0.51	1.98
2015-16	1.59	0.52	2.23
2016-17	1.97	0.92	2.67
2017-18	2.01	0.56	2.69
2018-19	2.34	0.57	3.05
2019-20	2.71	0.72	3.43

Notes: Amounts for the 2018-19 and 2019-20 programme years include temporary funds for Brexit analysis. The total is delegated by the Treasury, but decisions on spending on pay and non-pay are taken by the Office for Budget Responsibility.
Source: Authors, based on information provided by the Office for Budget Responsibility.

In terms of resourcing pressures, management and staff at the OBR note that there are now fewer peaks and troughs in workload than in the past, with staff being under higher pressure throughout the year. While the OBR has managed to fulfil its expanding remit over the past few years, this has only been possible by staff working at a higher intensity, with less time available for tasks such as maintaining and improving the OBR's models, working papers and other non "core" work.

Specifically, the OBR's workload has continued to expand since the Page and Ramsden Reviews along the following lines:

- The OBR now publishes a Welfare Trends Report every year, a Fiscal Sustainability Report every other year and a Fiscal Risks Report every two years.
- It has significantly expanded the amount and the depth of the work it does in reviewing and approving policy costings undertaken by the DWP and other government agencies.
- It produces more in-depth analyses and explanations of uncertainty associated with its forecasts and policy costings.
- Its subnational work has expanded in Scotland and Wales.
- It has had to conduct new analyses related to Brexit, and more recently the COVID-19 pandemic.
- The Treasury's capability and role in model maintenance and development has fallen off in recent years, with these tasks increasingly falling to OBR staff.

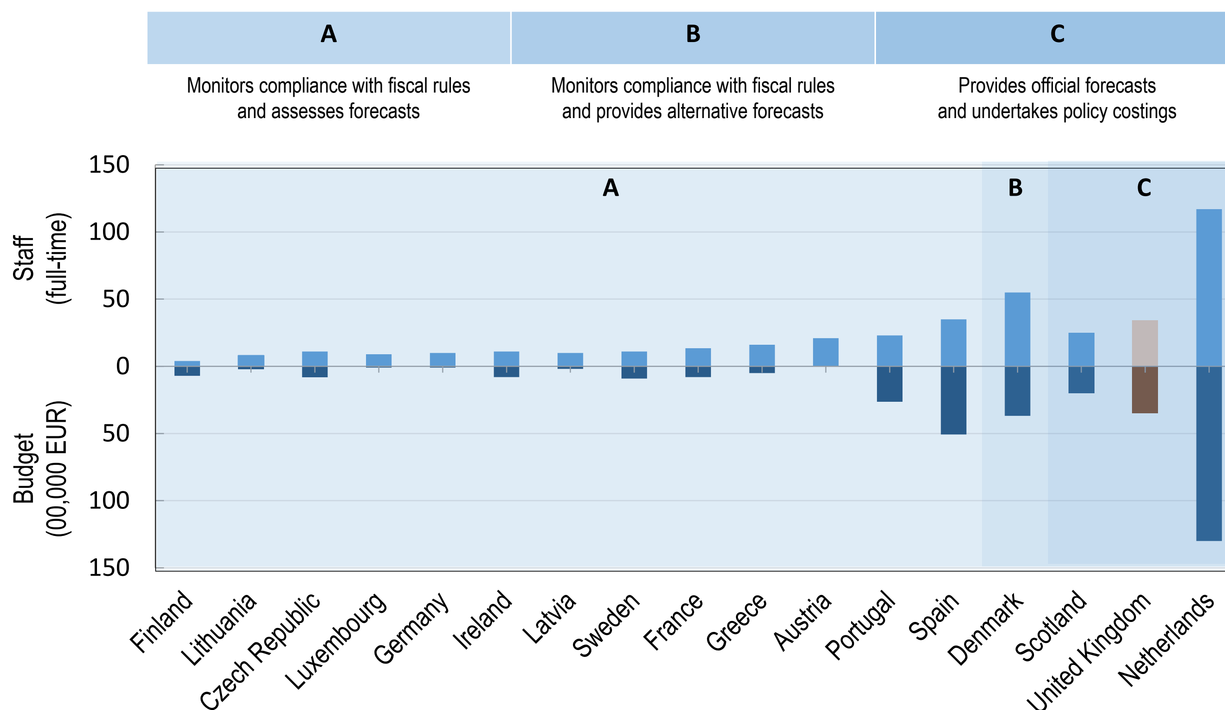
An example of where key pressure points have appeared is in relation to policy costing. In recent years, the OBR has increased the staffing and resources it deploys in carefully reviewing and challenging the fiscal implications of policy plans and preliminary costings of proposed policies produced by government agencies. The largest source of costings is typically HMRC, but the greatest increase in scrutiny work in recent years has related to those produced by the DWP. In autumn 2018, the OBR reviewed about 150 draft policy costings and responded with "action" items for roughly 90 of them.

Examples of such actions include noting that a particular policy option is not specified well enough to determine its fiscal impact, or that key assumptions behind a preliminary costing are not well-founded. Prior to OBR certification of a policy costing, government staff often have to clarify the policy specification or revise some of its costing components. This iterative work consumes a significant amount of OBR resources. In part, this reflects the growing body of evidence to draw upon, built up through the scrutiny processes ahead of successive fiscal events. Moreover, since 2014, the OBR regularly reports on uncertainty ratings (also routinely published in its database) and on re-costings via the updates on previous policies. At the request of the TSC, the OBR has also put a greater focus on scrutinising and evaluating anti-avoidance and HMRC operational measures to raise revenue through improved tax compliance.

These expansions of mandated work have begun to put a strain on the OBR's already tight resources and the OBR's workload is quite large in comparison to its funding. Figure 31 shows the OBR's funding relative to a number of other OECD IFIs in Europe with similar functions.

Making the temporary resources provided for Brexit analysis permanent would ease resourcing pressures and remove the appearance of a potential source of Treasury leverage over the OBR's work programme. Given recent pressures, the OBR should continue to monitor the demands being placed on staff, including in relation to the recommendations in this report, and the Treasury should fund an additional increase in resources if that proves to be warranted. Unsurprisingly, the production of additional outputs and the need to work from home because of COVID-19 have created particular challenges for staff and leadership more recently.

Figure 31. Mandate and resources of select OECD independent fiscal institutions in Europe



Notes: The Office for Budget Responsibility also monitors compliance with fiscal rules. Budget data for the Austrian Fiscal Council are not available.
Source: *OECD IFI Database*, 2019.

Human resources

Leadership

As noted in Section on Context, the OBR is led by a three-person Budget Responsibility Committee comprised of a chair and two committee members appointed by the chancellor, subject to the approval of the TSC.

Stakeholders view the current BRC as an extremely effective and cohesive leadership team. All three of its members are deeply involved in the preparation and review of the OBR's flagship publications. They work closely with the OBR's staff, helping to maintain a strong institutional culture of professional excellence and independence.

Initially, the chair was full time and the two other committee members were part time but, following the last round of appointments, one committee member is part time and one is now close to full time. This is in line with the recommendation of the Ramsden Review that there be "increased flexibility in job description (full-time or part-time opportunity) to increase the pool of potential candidates."

Two unpaid part-time non-executive members, also appointed by the chancellor for a three-year renewable term, complement the BRC and serve as chairs of the Oversight Board and its Audit subcommittee (see Section on Context).

The current OBR Chair will step down in October 2020, following two five-year terms. The change in leadership is viewed as a potential test for the OBR. However, the appointment of two new BRC members to the Committee in 2017 and 2018 ensures some continuity in OBR leadership after the transition to a

new chair. Moreover, one of the new BRC members has a long history with the OBR, having previously served as its chief of staff.

Concerns around succession planning more generally have also been mitigated now that the BRC has successfully gone through appointment processes to replace two former members and the TSC has confirmed the appointment of the incoming new chair. However, parliamentary stakeholders signalled they will be watching to ensure that appointment processes continue to be conducted in a timely manner, referencing the TSC's recommendation that "nominations to the BRC be made by the chancellor at least four and a half months before the existing post holder steps down" (UK Parliament, 2018[23]).

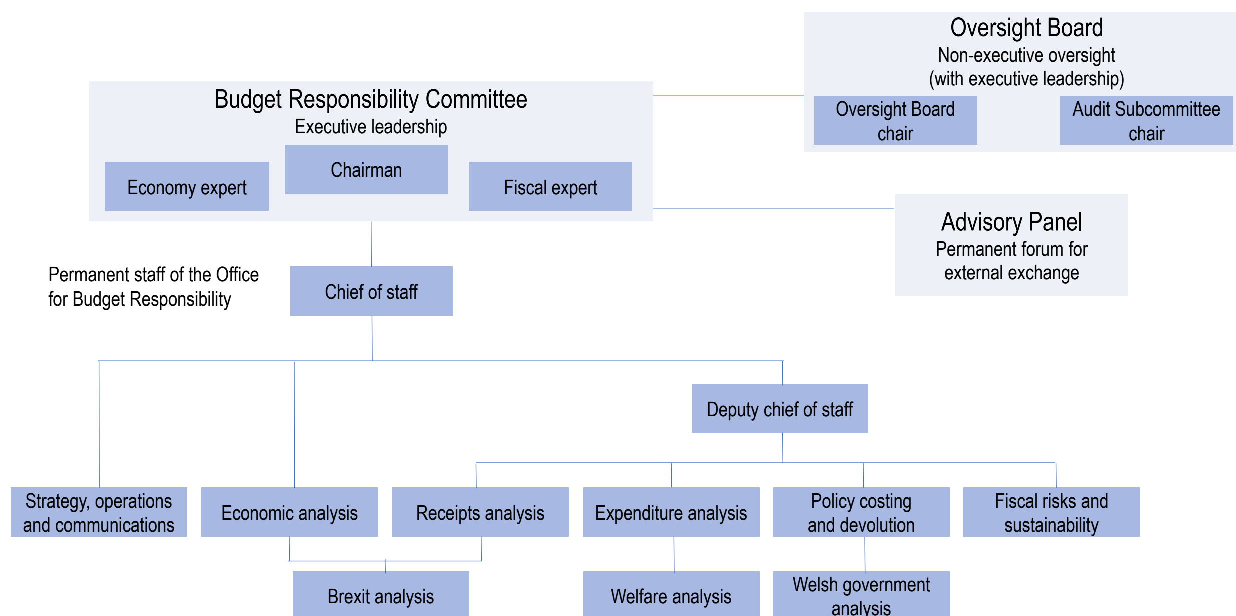
Staffing

The OBR has 34 staff positions. Six of these are still designated as temporary slots related to Brexit analysis, although – as noted above – the funding for them has now been baselined through to 2022-23. Staff turnover in the OBR tends to be moderate, and mainly at the analyst level, with only a few vacancies at any one time. Most of the staffing is for regular or "permanent" civil service positions. The OBR can hire non-nationals and has done so in the past.

The OBR's staff size has roughly doubled since 2012-13 and has increased by almost 50% since 2015-16. These increases have allowed it to meet its current mandate and keep up with the growing demand for its work highlighted earlier. Nonetheless, staffing remains modest: there is generally only one analyst with primary responsibility for a given topic or area.

The OBR staff is led by a chief and deputy chief of staff, as well as team leaders for economic forecasting and analysis; fiscal expenditure analysis; fiscal receipts; policy costing and devolution (Scotland and Wales support); fiscal risks and sustainability analysis; and strategy, operations and communications (Figure 32).

Figure 32. Office for Budget Responsibility organisational chart

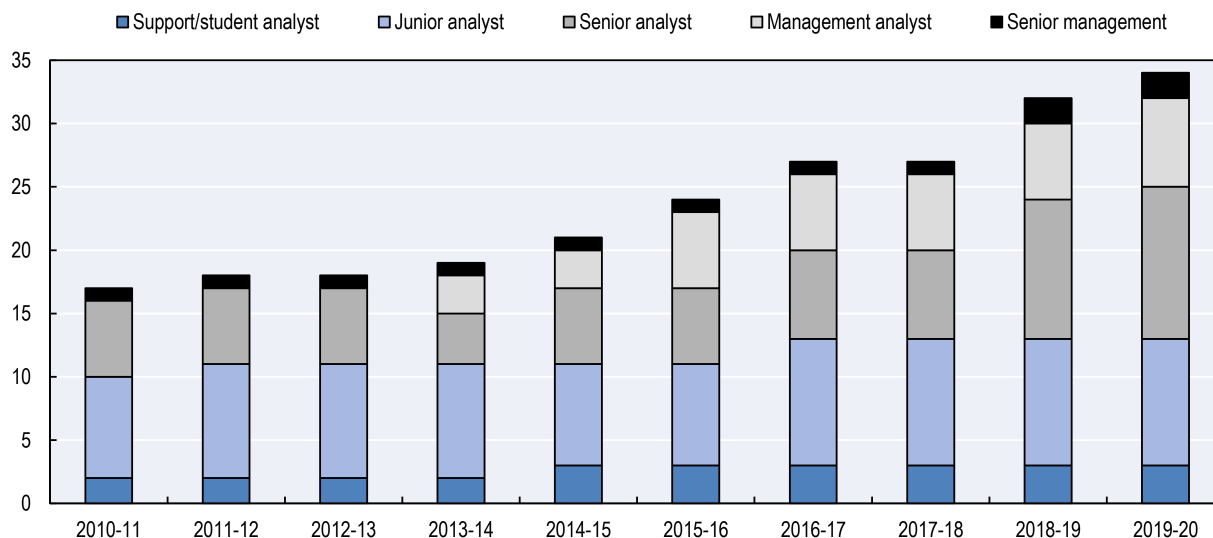


Source: Office for Budget Responsibility.

Each of the OBR's team leaders is supported by several analysts. This group includes several senior analysts, a handful of junior analysts and a few student economists on temporary work assignments.

Figure 33 shows the historical breakdown of the OBR's staff allocation to categories of leadership and different analyst grades.

Figure 33. Office for Budget Responsibility staffing levels by category



Notes: Senior management includes only the chief of staff and, since 2018, his deputy. The "management/analyst" category consists of the various "team leaders".
Source: Authors, based on information provided by the Office for Budget Responsibility.

The OBR maintains very few administrative posts. It has effectively outsourced activities such as accounting, human resources, procurement, some knowledge and information management, and legal services through a service level agreement with the Treasury. The OBR buys some services (such as information technology support) from the Ministry of Justice (from which it rents its office space).

Several challenges were raised at the time of this review in relation to staffing. First, over its history, OBR staff have relied to varying degrees on staff at HM Treasury to support the development and maintenance of the shared primary model used to compile the economy forecast. The amount of experienced Treasury staff time dedicated to model maintenance and development has diminished over recent years, with resourcing recently concentrated on developing Brexit modelling capability, and more responsibility is being placed on OBR staff to maintain and update the model. In early discussions with the OBR, the review team expressed its view that it would be prudent to augment the OBR's economic forecasting staff with at least one additional team member to serve as an overall model manager. The OBR subsequently hired a model manager in early 2020.

Communications are viewed as an incredibly important task for the OBR, especially as its main mission is to provide comprehensive and consistent transparency about economic and fiscal forecasts in the United Kingdom. As the official forecaster, the OBR enjoys significant media coverage. Stakeholders praise the chair's acumen as a communications expert (partly reflecting his experience in that field as a former journalist and speechwriter). As the organisation has grown, the OBR has slowly increased its communications staff, with the number of staff with responsibilities related to strategy and communications growing from one to two in 2016 and a third person joining in January 2020. It will be important to ensure that the OBR can maintain and expand its communications capacity appropriately, for example to help manage stakeholder demands for greater OBR engagement with the community of macroeconomic and fiscal experts outside government and with academics.

The OBR's relatively modest size and flat hierarchy gives it a certain agility. Staff and stakeholders alike view this positively. At the same time, it creates potential risks to the OBR's business continuity. Most of the team leaders have been in their positions for several years, some since the OBR's start-up in 2010. It is good for operational effectiveness to have such a devoted, experienced group of leaders, but there is limited opportunity for promotion from within and smooth continuity would be difficult if several staff from that senior group left.

It also means that staff development may lag because there is too much demand on an individual's time to allow for professional training and for taking advantage of outside career development opportunities. This is true for all levels of staff, but may be particularly acute for team leaders, who have significant responsibility for generating the key reports. The results of the OBR's employee engagement surveys (2015-18) bear out this concern. While highly positive overall, they show dissatisfaction on "learning and development", with the score for this category at 50% (Cabinet Office, 2018[24]).[16]

Along with "learning and development", "pay and benefits" was the area where OBR staff reported the most dissatisfaction in the OBR employee engagement survey (the Treasury scores similarly poorly on this metric). Pay for OBR staff is set based on UK civil service guidelines and generally in line with the pay scales for the Treasury, which is the OBR's sponsor department. Treasury pay scales are traditionally lower than those of other ministries. In addition to the Treasury, HMRC and the DWP are the OBR's most frequent source of new staff and key comparator departments for pay levels. Data provided by the OBR comparing its staff pay with the pay for comparable positions within Treasury, other government agencies and at the Bank of England indicates that:

- After adjusting for level of experience, OBR pay for most analytical positions (as represented by median salaries) is comparable to the levels at many government agencies (particularly at Treasury and the DWP), but notably below the average at HMRC.
- For the OBR economic analysis team, pay is generally well below levels obtained by comparably experienced staff at the Bank of England.

Strong analysts who gain significant experience may eventually be tempted to leave the OBR for better paying positions in the private sector, at the Bank of England or elsewhere in government – and this has happened in practice. This is not a two-way exchange. The review team raised the possibility of the much better resourced Bank of England offering to second an economic forecasting expert to the OBR, while recognising that there may be some institutional barriers to such a secondment. This strategy has been used by several IFIs, for example, the Bank of Spain seconded officials to Spain's IFI, the Independent Authority for Fiscal Responsibility (AIReF) during its early years of operation.

Pay constraints are a fact of life for most IFIs and are likely to remain so. Despite this, working for the OBR remains attractive because of the organisation's mission, high visibility and credibility, its relatively small size with minimal bureaucracy, the lack of a political filter on the work (given the OBR's mandated independence) in contrast to most other civil service roles, and the opportunity to work on varied projects over time and to publish analytical work. Overall, staff show high satisfaction with their work and a highly positive attitude towards the OBR's organisational objectives and purpose.

Table 21. Office for Budget Responsibility's employee engagement 2018

	Office for Budget Responsibility	Treasury	Civil service benchmark score
Employee engagement index	79%	75%	62%
My work	87%	81%	76%
Organisational objectives and purpose	98%	87%	83%
Learning and development	50%	61%	54%
Pay	28%	29%	31%

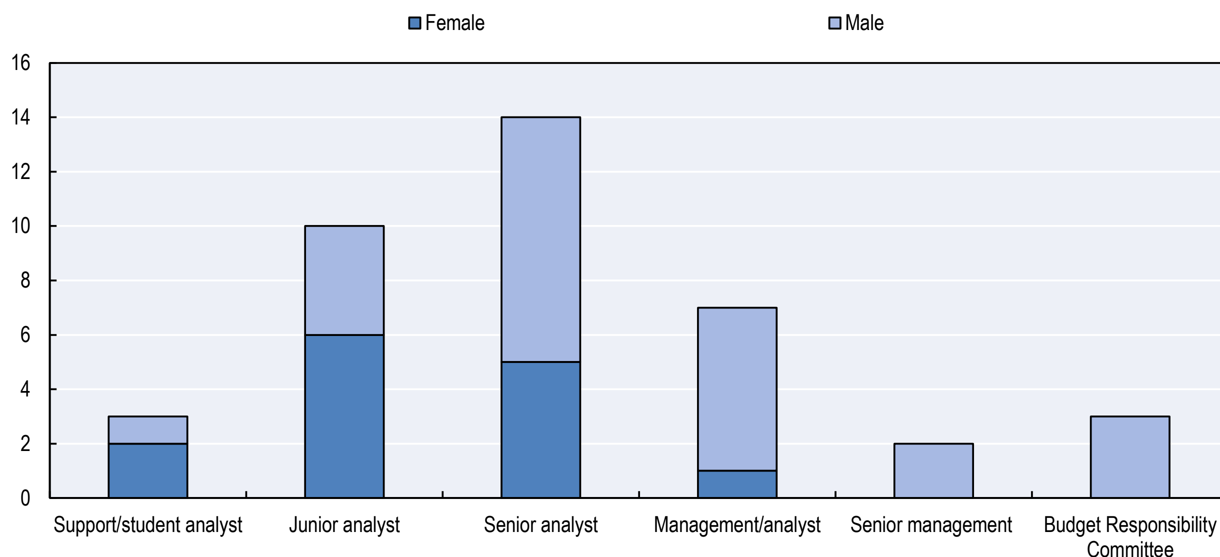
Note: Percentage of staff responding positively.
Sources: Office for Budget Responsibility and Cabinet Office (2018[24]).

Gender and other diversity has been another challenge for the OBR, particularly at the team-leader level up through the BRC. There is some diversity at the analyst level, but overall the OBR has had a primarily white male workforce. This is partly due to the original composition of its first staff contingent from the Treasury.

In terms of gender, the OBR has been making better progress on this front more recently. Recruitment in 2018-19 and in early 2020 has raised the OBR's share of female employees from 19% to 44% at end-March 2020, although most of the women working at the OBR are still primarily working at the lower grades. This has brought the share broadly in line with the 46.2% of staff who on average identified as female at the Treasury between 2012 and 2019 (although the Treasury is arguably less diverse among its economic and fiscal specialists), but it remains below the average of 53.6% for the civil service as a whole. By comparison, the SFC has managed to strike a 50-50 gender balance among senior analysts and senior management; overall, there are slightly more women than men (OECD, 2019[19]).

The gender gap may partly reflect the smaller pool of women studying economics in the United Kingdom (around a third of undergraduate economics students) and entering the Government Economic Service (GES), which lags behind the wider Fast Stream in terms of gender. A 2016 comparison showed that 32% of GES applicants were female compared to 49% of Fast Stream applicants as a whole from Recruitment Round 1 (Government Economic Service, 2016[25]).[17]

Figure 34. Gender balance at the Office for Budget Responsibility by category (as of February 2020)



Notes: Senior management includes only the chief of staff and, since 2018, his deputy. The "management/analyst" category consists of the various "team leaders". The number of staff that work in strategy, operations and communications across these categories increased from two in 2011 to five in 2019.
Source: Authors, based on information provided by the Office for Budget Responsibility.

Advisory Panel

In line with the OECD Principles, the OBR has established a nine-member Advisory Panel of economic and fiscal experts drawn mainly from academia, the private sector and think tanks.

The Advisory Panel meets once a year, generally in the autumn, for roughly a half-day of discussions, primarily about the economic forecast, though other issues related to the OBR's work programme may also be covered.

OBR leadership also occasionally reaches out to individual members of the Advisory Committee for input about specific issues, such as analysis of the UK labour market and documentation of the OBR's technical modelling (related to general equilibrium analysis for the UK economy).

While it appears that the OBR is making productive use of its Advisory Committee, interaction is fairly "light touch". Several advisors that the review team met with indicated their willingness to engage more. A half-day, once-a-year meeting may not be enough to generate as much outside input to the OBR's work as is possible (and desirable). By comparison, in the United States, the CBO's Panel of Economic Advisors meets twice a year and the Advisory Board for Spain's AIReF meets four times a year.

It may be worth considering meeting twice a year, along with the possibility of extending at least one of those meetings to a nearly full-day schedule that includes short presentations by committee members on topics of interest to the OBR. The trade-off here is that slightly more staff time would go into organising an additional meeting and an additional time commitment would be required from panel members.

Access to information

As independent institutions, IFIs require access to information from across the public sector to ensure they are in the best possible position to deliver informed analysis and opinion. Consistent with this requirement, Principle 6.1 states:

> *"This creates a special duty to guarantee in legislation – and if necessary, to reaffirm through protocols or memoranda of understanding – that the IFI has full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals."*

The OBR reports good access to information. It has a strong legal framework for obtaining the information it needs to fulfil its remit:

- First, the OBR's enabling legislation, the BRNA Act, provides it with a legal right to information from the government:

> *"The Office has a right of access (at any reasonable time) to all Government information which it may reasonably require for the purpose of the performance of its duty…" (BRNA Act, section 9)*

- Second, the BRNA Act gives the OBR the right of access to analysts to explain information:

> *"The Office is entitled to require from any person holding or accountable for any Government information any assistance or explanation which the Office reasonably thinks necessary for that purpose."(BRNA Act, Section 9)*

- Third, the Charter for Budget Responsibility details the respective roles of the Treasury and the OBR in promoting greater budget responsibility and transparency in the United Kingdom. It notes that "the government has adopted the OBR's fiscal and economic forecasts as the official forecasts for the Budget Report", but adds that "the government retains the right to disagree with the OBR's forecasts and, if this is the case, will explain why to Parliament". The Charter also details how the OBR is to conduct its work independently of the Treasury, but with input and consultation as necessary to complete that work.

An MoU with the Treasury, the DWP and HMRC operationalises the OBR's legal rights to information. The MoU details the products of the OBR and the responsibilities of the government agencies to "make relevant staff available" to work with the OBR as necessary for the OBR to complete those products. The MoU also calls on the government agencies to provide the data and analysis needed in the OBR's development of those products.

Table 22 shows that the instruments available to the OBR, both legislation and the MoU, to access information are the ones available to the largest proportion of IFIs across OECD countries.

Ultimately, legal access to information and an MoU for the framework of inter-agency co-operation are only successful if there is good and frequent personal communication between key personnel at the various agencies. OBR staff have worked hard to build and maintain those good relationships and there is good co-ordination under the current MoU.

Table 22. OECD independent fiscal institutions' arrangements to secure access to information

Underpinned by both legislation and MoU	38%
Underpinned by legislation only	28%
Underpinned by MoU only	9%
No underpinning	25%

Note: The data include 32 national independent fiscal institutions in OECD countries. The data include two independent fiscal institutions for Austria, Finland, Greece and Ireland, where there is both a Fiscal Council and a Parliamentary Budget Office.
Source: *OECD IFI Database*, 2019.

Independence

Independence and non-partisanship refer to the ability of an IFI to undertake its duties free from political pressure or influence. Those attributes were considered particularly important in the wake of the financial crisis of 2008-09, when several OECD countries – including the United Kingdom – began the process of establishing IFIs. The extent to which independence is fostered within an IFI is significantly influenced by its enabling legislation and subsequent working agreements.

The OBR has a particularly strong reputation for independence. Indeed, in a first attempt to measure IFI independence using a set of variables drawn from the OECD Principles and data from the *OECD IFI Database*, the OBR scored the highest among the 26 institutions assessed (von Trapp and Nicol, 2018[26]). Moreover, its IFI peers throughout the OECD have consistently looked to the OBR as a model of independence and operational credibility.

The BRNA Act provides a strong legal underpinning for the OBR's independence. Moreover, the Charter for Budget Responsibility, the Framework Document and the MoU that stemmed from that legislation collectively do a good job of detailing how the OBR is to operate. Specifically, those documents clearly lay out how the OBR should fulfil its mandate while maintaining independence and non-partisanship.

Some observers might question the OBR's independence because of its close ties with the Treasury. It is formally part of the Treasury Group, receives its funding from the Treasury and depends in part on the Treasury (but much more on HMRC and the DWP) for inputs necessary to do its work.[18]

The OBR notes that it is able to show its independence in that working environment by being as transparent as possible. In particular, it takes pains to publish openly and clearly the sources of its information, the assumptions it makes and the reasoning for the judgments it applies in developing economic and fiscal forecasts, as well as in completing its other work, such as the review of government policy costings. To avoid any undue influence on the part of departments, the OBR has strict rules on handling the sharing of "fact-check" drafts ahead of publications, as well as a system for referring any problems during that process to its non-executive members. In some cases, for example Annex A of an EFO that covers policy measures, the OBR goes so far as to require departments to list the officials that were given access to the fact-check drafts.

Separation of responsibilities. Under the MoU, the "Government is responsible for all policy decisions and policy costings. The OBR will provide essential analysis on which the Government can base its fiscal and economic policy decisions" (MoU, Paragraph 5). That delineation of responsibilities makes it clear that the OBR is not involved in policy making, but instead is providing the independent economic and fiscal analysis that can inform policy making.

Operational independence. Under the BRNA Act, the OBR has significant autonomy to determine its own work schedule as long as it meets the legislation's requirements to prepare economic and fiscal forecasts in the time frame needed by government. The legislation states, "[t]he Office has complete discretion in the performance of its duty" (BRNA Act, Section 5). In addition, the OBR has autonomy in its hiring and internal organisation (subject to civil service rules). Its overall leadership position is a full-time, remunerated chair with a clearly defined term of five years (not linked to individual government elections).

***De facto* independence.** IFIs work to gain *de facto* independence over time through their actions and analysis. The first leader of any IFI has a particularly important role in establishing a culture of independence inside the institution, as well as ensuring that the institution gains credibility and relevance externally in its first several years of existence. The OBR's chair is credited with instilling a strong culture of independence among OBR staff.

There is always the concern that the culture of independence created by the first leader might be eroded over time, particularly if subsequent leaders do not continue to develop the IFI's reputation and credibility as a politically neutral arbiter of the numbers. However, successors to the first BRC members have shown themselves willing and able to continue to act in a non-partisan manner and uphold the OBR's culture of independence.

Conclusions

The OBR is well-governed with strong, competent leadership, supported by a highly capable and professional staff. Despite growing pressures on its mandated work, it has managed to deliver its remit within its resource constraints and has been largely successful in seeking additional resources when necessary.

The OBR has good access to information, guaranteed in legislation and reaffirmed through MoUs and good working relationships.

The OBR also has a high degree of *de facto* independence, reinforced through its institutional arrangements and transparent practices. The chair is recognised as instilling a strong institutional culture of independence and non-partisanship that has the potential to last long beyond the end of his tenure.

Ensuring that the temporary resources provided for Brexit analysis are permanent (as currently assumed in the budget allocation) would ease resourcing pressures and remove the appearance of a potential source of Treasury leverage. Given recent pressures, the OBR should continue to monitor the demands being placed on staff and the Treasury should fund an additional increase in resources if that proves to be warranted. It will also be important for the OBR to maintain and expand its communications capacity appropriately, particularly following the departure of its first chair.

The OBR should continue to seek to broaden its recruitment pool to a more diverse group of recruits where possible.

Should Advisory Panel members be willing, the OBR should use the Advisory Panel more extensively, by moving from one annual meeting to two and/or extending the duration of the meeting to more than half a day.

Methodology and outputs

Introduction

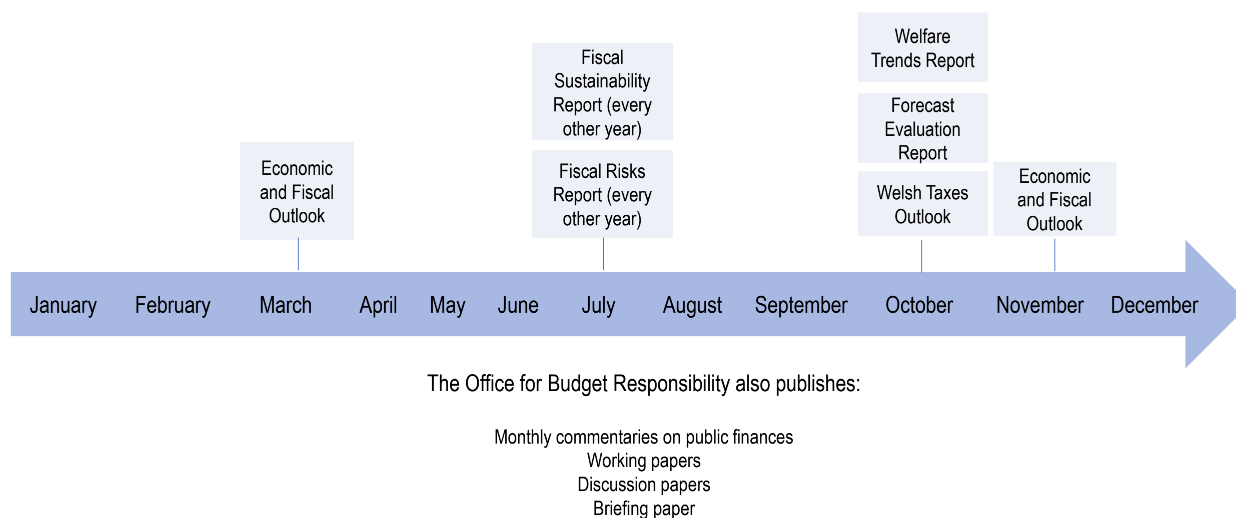
This section reviews aspects of the OBR's flagship publications, as well as a selection of its supplementary materials, and offers ideas for further refinements to the style and methods used in OBR publications.

According to the Charter, the chancellor commissions the OBR to produce its fiscal and economic forecasts on dates of the government's choosing, but the OBR determines the timing of its other core publications after consulting the Treasury. Figure 35 depicts the approximate (typical) publication timetable for the OBR's core publications.

The OBR's original core publications are the EFO, the Fiscal Sustainability Report (FSR) and the Forecast Evaluation Report (FER). The Page Review's detailed evaluation of the EFO, the FSR and the FER concluded that they meet the requirements outlined in the BRNA Act and the Charter and that they meet or surpass international standards. Specifically, on the EFO, the Page Review concluded that the methods used by the OBR "compare well with those of peer institutions" and that the "depth of the work produced by the OBR is generally more substantial than those of its peers (e.g. Australia, Canada, United States) for documents comparable to the EFO."

The Page Review also assessed these reports in terms of transparency gains against the Treasury's analogous products prior to the establishment of the OBR, finding that the gains in transparency "were both observable and marked."

Figure 35. Office for Budget Responsibility's core publications timeline



Notes: Because of early elections taking place in December 2019, there was no budget and no Economic and Fiscal Outlook published in November 2019. The three publications normally slated for October were published in late December after the election.
Source: Authors, based on information provided by the Office for Budget Responsibility.

The OECD review team found that the conclusions reached in the Page Review continue to reflect the position of the OBR's traditional outputs. The same positive conclusions can be drawn about the OBR's new reports and outputs. Particularly commendable, and on the leading edge among peer IFIs, is the extensive work done at the OBR to reflect critically on its forecasts in the FERs.

Evolution of the Office for Budget Responsibility's outputs

New reports

Since the previous reviews, the OBR's outputs have continued to evolve. Its outputs now include two additional core publications: the Welfare Trends Report (WTR) and the FRR. The OBR also produces a Welsh Taxes Outlook.

The WTR was first published in October 2014 at the request of the chancellor. In line with the recommendations of the Ramsden Review, the autumn 2016 update of the Charter approved by parliament now mandates the OBR to produce an annual WTR, as well as a FRR every two years. The updated Charter states that the WTR:

> *"[w]ill set out the trends and drivers of welfare spending. This report will consider both sources of error compared to the previous forecast, and longer-term trends in welfare spending."*

The Charter also envisages that the FRR will set out:

> *"[t]he main risks to the public finances, including macroeconomic risks and specific fiscal risks."*

There have been six issues of the WTR so far. The introductory one in 2014 provided a comprehensive overview of trends in public spending on benefits and tax credits, as well as the OBR's judgments concerning contemporaneous developments in the area. Each successive report has had a special focus. The latest one, released in December 2019, focused on the fiscal impact of the large welfare cuts package in the July 2015 Budget.

Box 17. The Forecast Evaluation Report

Leading the way in the global independent fiscal institutions community

The Page Review concluded that the Office for Budget Responsibility (OBR) "demonstrates a willingness to continually improve its core products while being self-critical and continuously working to increase the transparency of its core product development and communications".

The regular Forecast Evaluation Reports (FERs) are the OBR's main platform for self-evaluation and self-reflection. The publication stands out in the international context in terms of the level of detail provided and the thoroughness with which the annual report seeks to identify the sources of forecast errors. The work on public finances done in this regard is unparalleled in the IFI community.

As it does for the Economic and Fiscal Outlooks, the OBR splits the FER analysis into a section on the economy and a section on public finances. Each contain a detailed comparison of observed outcomes with OBR forecasts. The reports do a meticulous job in decomposing observed deviations and attributing forecast errors to errors of assumption or judgment, policy changes, structural breaks in data series, data revisions, or accounting classification decisions. The reports have a separate section highlighting the main lessons learnt and identifying the key priorities for model development and data acquisition for the coming period.

Possible extensions

The FER contains valuable analysis confronting the OBR's own modelling and thinking with observed reality as well as comparing the performance of the OBR's forecast with that of the official forecast undertaken by the Treasury over the 20 years prior to the OBR's creation. Other independent fiscal institutions have found it helpful to undertake additional evaluations of their record in the context of other forecasters.

This type of comparison would be feasible and more informative in relation to the OBR's economic forecast. The OBR is required to condition its forecasts on current stated government policy, whereas others can reflect how the forecaster expects policy to change. As such, the OBR's forecasts may not always be directly comparable with many outside forecasts. Nevertheless, occasionally placing the OBR's economic forecasts in the context of similar output by other forecasters could still provide additional useful insights.

The Slovenian official independent forecasting body, the Institute of Macroeconomic Analysis and Development, produces such comparisons regularly, and the United States' Congressional Budget Ofiice's Economic Forecasting Record's publications include a comparison with the US Federal Reserve's and consensus forecasts.

There are potential wider benefits to producing such comparisons. For example, in the case of the Slovak Council for Budget Responsibility, this type of comparison has helped protect the council from criticism that its forecasts have been too pessimistic in recent years. The fact that other institutions also made similar forecast errors demonstrated that all forecasting institutions had faced difficulties in capturing the effects of the business cycle on tax compliance in the Slovak Republic (OECD, 2020[27]).

The OBR has thus found different ways of complying with the instruction in the Charter. In all reports, the focus has been on the implications for the public finances. Questions of efficiency (in delivery) and equity have not been dealt with, in line with the OBR's mandate.

The first FRR was published in July 2017. It provided a detailed catalogue of risks to the public finances in the United Kingdom. With more than 300 pages, it is the longest of the OBR's publications. The government responded to the first FRR formally in July 2018, as required in the Charter, by publishing a report on Managing Fiscal Risks that lists the steps taken to mitigate some of the risks identified in OBR's 2017 FRR.

The second FRR was published in July 2019. It reviewed the issues raised in 2017 and considered the government's 2018 response to each, plus added a detailed analysis of newly identified "special topics". It remains to be seen how substantive the government's response to this report will be. It will be important for the government to issue a substantive response that builds on 2018 and keeps the fiscal risk management conversation going.

Drawing on a framework designed by the IMF, the FRR builds on existing analyses of uncertainty surrounding projections carried out in the EFOs and the FSRs. It evaluates macroeconomic risks (such as risks to potential growth, business cycle uncertainty, risks associated with sectoral composition and Brexit), financial sector risks, key risks on the revenue and spending side of the budget, balance sheet-type risks, and interest risks. The FRR includes a fiscal stress test to assess the public finance implications of an adverse economic scenario. In 2017, this was based on a scenario used by the Bank of England to test the resilience of the financial system to a negative global and domestic shock; in 2019, it was based on a "no-deal" Brexit scenario that had been published by the IMF.

Growth of work on policy costings

In preparing the EFO, the OBR reviews the policy measures proposed by government in each Budget or fiscal event costings of those policies submitted by the relevant department. As noted in Section on Resources and independence, this has become an increasingly significant activity for OBR staff. While the OBR is not explicitly developing full-fledged cost estimates of policy options from the bottom up, its detailed review of the data used, the assumptions made and the costing results that government agencies provide constitutes a comprehensive activity that is somewhat comparable to bottom-up costings of policy proposals performed by larger peers such as the US CBO and Korean National Assembly Budget Office. The government has never published an official policy costing that it knows that the OBR disagrees with and would replace with one of its own.

Table 23. Office for Budget Responsibility's policy costings

How well do policy costings help fulfil the Office for Budget Responsibility's (OBR) mandate?	The OBR is tasked with providing independent analysis of the UK public finances, including detailed fiscal outlooks. Its assessment of government policy costings is a critical component of its overarching independent analysis. The OBR's thorough review of those costings and publication of estimate uncertainty judgments adds to the transparency of budget information for public finances.
How does the OBR's costing approach compare to international standards?	The OBR's extensive review of costing information compares very favourably with the highest international standards. The review includes a careful examination of data reliability, cost modelling and the role of behaviour in determining ultimate policy effects. By questioning the quality and relative uncertainty of all three such factors (data, modelling and behaviour), the OBR analysis is comprehensive and constitutes the sort of in-depth analysis called for by international standards, as opposed to cursory reviews prior to endorsement of the costings.
How do OBR costing activities compare to those of peer independent fiscal institutions?	In the fall of 2018, in preparation for the Budget, the OBR reviewed about 150 draft policy costings and responded with "action" items for roughly 90 them. Another (generally smaller) costing exercise occurs in the spring. Those activities are resource-intensive and quite time-consuming, but reflect a lower level of activity than policy costing peers such as the US Congressional Budget Office or the Korean National Assembly Budget Office, who each have significantly more staff resources devoted to the activity, with a broader mandate to cost out a high volume of legislative proposals. However, the level of detail and rigour of the OBR's work compares very favourably with that of its international peers.

Subnational forecasts

The OBR's role has also evolved in relation to subnational forecasts in Scotland and Wales. Since 2012, the OBR has been producing revenue forecasts for taxes devolved to Scotland (Scottish income tax, stamp duty land tax (now the land and buildings transaction tax) and landfill tax (now Scottish landfill tax). Since 2016, the OBR must also forecast Scottish air passenger duty, aggregates levy and aspects of Scottish social security. Since 2014, the OBR has also been forecasting taxes devolved to Wales (the Welsh rates of income tax, stamp duty land tax (now the land transaction tax), landfill tax and aggregates levy). The OBR publishes this work and forecasts of UK government revenues and social security spending to support the fiscal frameworks for both countries alongside the EFO publications that capture the aggregate UK level. From April 2019, the OBR is providing independent forecasts for the Welsh government of these devolved taxes for its own budget process, in accordance with the Welsh government's Fiscal Framework (this fulfilling part of the role played by the SFC in Scotland). The timing of these publications reflect the Welsh budget timetable.

Long-term projections

The Ramsden Review recommended decreasing the frequency of the production of long-term economic forecasts for the FSRs while keeping the legislative requirement to produce some analysis on an annual basis. It noted that:

> *"The overall messages from the long-term projections are relatively stable, so the annual updates provide limited new information. As a result, it is not clear that frequent publication of 50-year projections adds a great deal for increasing public understanding – and the analysis may have less impact for being more familiar."*

The amended Charter now mandates the OBR to produce long-term projections at least once every two years (this aligns with the frequency with which the ONS produces long-term population projections). In the interim years, the reports are meant to focus on in-depth analyses of specific sustainability issues, which the OBR undertakes through the FRR. While the updated Charter establishes a two-year frequency as a norm, it leaves some discretion with the OBR to produce a long-term projection at a higher frequency if circumstances merit it.

Anderson and Sheppard (2010[28]) favour annual publication of long-term projections on two grounds: 1) to eliminate discretion over when the analysis is produced; and 2) annual frequency raises the awareness of the long-term fiscal consequences of policy decisions. The more recent OECD *Recommendation of the Council on Budgetary Governance* (OECD, 2015[29]) takes a different view: it stipulates that sustainability reports should be published regularly enough to contribute to public and political discussion on budgetary

issues. The OECD's benchmarks for IFIs analyses of long-term fiscal sustainability take this recommendation as good practice, adding that forecasts should be prepared, at a minimum, every five years, ideally specified under law (Shaw, 2017[30]). International practice is split with slightly under half of OECD countries producing long-term projections annually. The OBR's legal mandate and practice represent a reasonable solution from the perspective of efficiency and public impact.

Self-initiated work

As part of its self-initiated work, the OBR continues to produce monthly commentaries on public finances outturn data, providing a same-day reaction to newly released official figures, as well as discussion, working and briefing papers. The OBR also publishes about two working papers a year, mainly covering methodological issues associated with the execution of its mandate. Discussion papers are less frequent. They tend to serve as a vehicle to stimulate a discussion ahead of a larger project the OBR is embarking upon that presents its staff with significant conceptual and methodological challenges. The last in the series, for example, was on the incorporation of Brexit into the OBR's forecast. The OBR publishes supplementary information on its latest economic and fiscal forecasts if it receives an external request to do so. To aid transparency, such supplementary information is released each month on the same day as the commentary on the public finance statistics or exactly two weeks after.

The OBR's briefing papers provide further insight into how the OBR approaches modelling in areas of its mandate. Together with the information presented in the online in-depth explainers[19] for economic and fiscal forecasts, these outputs are an important contribution to the institution's accountability and transparency.

In terms of original research, the Page Review noted that the OBR used "generally accepted modelling and econometric methods" (Page, 2014[1]). This is laudable, and it is a reasonable approach for an institution like the OBR to rely on well-tested approaches. Nevertheless, the OBR could clearly engage more with the state-of-the-art techniques of economics to assess their practical relevance for elements of the OBR's mandate. This could include different variants of vector autoregressive (VAR) models; dynamic stochastic general equilibrium models, including those types that permit the study of the implications of labour market and financial frictions; and models that feature income and wealth heterogeneity. The OBR could also have the ambition of developing innovative approaches to push the boundaries of applied fiscal policy analysis. A key set of recommendations from the Ramsden Review on allocating capacity to do original research is yet to be implemented. Having not received all the additional funding that it deemed necessary to fulfil all of the Ramsden Review's recommendations, the OBR does not currently regard this as the best use of its limited available resources.

Issues for reports

Stakeholders interviewed by the OECD review team demonstrated detailed knowledge of the key reports. Overall, they expressed great appreciation for the quality, detail and clarity of the presentation of the data and analysis in the OBR's publications.

Several stakeholders more active in the political arena noted that the EFOs have been the first point of reference for a factual check of the chancellor's budget speeches. Stakeholders from think tanks and research institutes noted using OBR outputs as a benchmark and a source of crucial detailed information for their own analysis and projections. As such, OBR outputs provide a useful basis for further work in areas the OBR is not mandated to venture into, such as distributive impacts of policy measures.

Taking into account additional stakeholder feedback, several aspects are worth considering to enhance further the appeal of the OBR's outputs to different audiences, related to the content, transparency and accessibility of the documents.

Content

Economic and Fiscal Outlook

There is a clear logical sequence to the structure of the EFOs, taking into account the regular nature of the publication. The EFOs focus on changes relative to the previous forecast before discussing the bigger underlying movements that are the dominant drivers of economic and fiscal developments. While the most intensive users of the OBR's outputs find this approach helpful, some readers find the level of detail provided about changes to forecasts to be more than necessary. Several stakeholders were also critical of what they saw as unnecessary repetition in different contexts in one report.

The OBR has generally been relaxed with repetition on the grounds that many stakeholders read only those sections that are directly relevant or of interest to them, rather than the document as a whole, so each section needs to be relatively comprehensive and self-contained in its own right. The US CBO faced a similar challenge around incorporating information on changes to the projections in the main text of its Budget and Economic Outlooks. As this text became longer and more detailed over time, it was decided to keep a brief mention of key changes in the main text and the more detailed description in an appendix. That approach, if done well, provides those readers who want to see in detail the "changes" information, while allowing other readers to have a quicker, better reading flow of the main text. The OBR should also continue to review what material might be suitable for online only publication in light of different audiences.

Fiscal Sustainability Report

The previous reviews concluded that the methods adopted in the FSR compared well against international standards. Since the earlier reviews, the OECD has developed a set of benchmarks for IFIs' analyses of long-term fiscal sustainability (Shaw, 2017[30]). Reviewed against these benchmarks, the OBR's FSRs are consistent with what the document labels as "leading practice" along several dimensions. In particular, the coverage of the whole of government, detailed consideration of a variety of risks, the use of sensitivity analyses and international comparisons set the FSR apart from what is standard practice for IFIs.

The OBR could re-explore explicitly considering the feedback between long-term fiscal developments and the macroeconomy (having last addressed this some years ago). Model-based work done on this at the US CBO is considered the benchmark approach among IFIs, and is used, for example, in the reports of the Slovak CBR as well. However, this approach is not without limitations; not being a fully-fledged general equilibrium analysis is one of them. It is also resource-intensive.

Shaw (2017[30]) also includes coverage of issues of equity and fairness among the leading practices for IFIs. The OBR does not carry out analyses of distributive impacts of measures, as it is not explicitly mandated or resourced to do so, and is consistent in this practice across flagship reports. Nevertheless, discussing issues related to intergenerational fairness more explicitly could be consistent with its mandate and would be an important contribution to the public debate. A recent inquiry by the House of Lords' Intergenerational Fairness and Provision Committee found that "one particular government weakness is a lack of work on generational accounts... a way of measuring the financial sustainability of the Government's tax and spending decisions." The Slovak CBR considers intergenerational justice in connection with the long-term sustainability of public finances. Again, there would be resource implications in expanding the analysis this way.

Fiscal Risks Report

In terms of prescribed content, the FRR presents the most flexibility among the OBR's flagship publications. Before the publication of the first FRR, the OBR initiated an extensive written consultation on what such a report should include, and co-organised a similarly themed workshop with other IFIs and international bodies present. In the end it drew heavily on the IMF's suggested template for what a report of this type

should contain. The end result is a comprehensive and systematic coverage of risks to the macroeconomy and public finances. Adhering to the principles and processes that guide the preparation of its other outputs, the OBR avoided an examination of alternative policies or policy frameworks, and relied on the work of other public bodies in areas where it has no extensive in-house capacity.

It is commendable that the OBR has been at the forefront of this type of analysis. The FRR has had a positive reception by, and solicited much interest from, peer IFIs, governments in other countries and international organisations. It has also had a positive reception in specialist media, although it has naturally faced some criticism and debate from some analytical commentators.

For example, some commentators have seen as a major omission the lack of discussion of the implications of a (near-) zero nominal interest rate environment for fiscal policy and the risk of this lasting longer than previously expected. In such a world, fiscal policy may be increasingly called upon, both in terms of frequency and magnitude of intervention, to achieve macroeconomic stabilisation objectives. Past episodes, which are covered in great depth in the report, do not offer good guidance here. A reflection by the Treasury on the implications of this for the outlook for the public finances would have been a timely and beneficial reassessment of the respective roles of monetary and fiscal policy in delivering macroeconomic stability to the UK economy.

The coverage of risks emanating from the financial sector was, for some observers, too descriptive. For this class of risks, the OBR relies on expertise in a different public body. The review team found this approach reasonable, given the absence of resources within the OBR to replicate or thoroughly scrutinise the work of financial regulators and the central bank.

Some additional criticisms of this very new product have been addressed by the second edition of the FRR. For example, the second FRR discussed the role of uncertainty, an important determinant of macroeconomic volatility. It also highlighted a limited number of key risks – in addition to the “catalogue” approach that brings together risk of all categories – magnitudes, and probability distributions, which should increase the likelihood of the issues raised being addressed by effective government action.

Treatment of uncertainty

The OBR has been at the forefront of the discussions among IFIs on uncertainty surrounding forecasts and on communicating such uncertainty. The FRR is a unique and inspirational initiative for the OBR’s European peers. In addition to thinking about the range of types of risk considered in the FRR as indicated above, there are other ways of reconsidering the OBR’s work on uncertainty.

As noted in earlier reviews, the OBR’s default way of indicating uncertainty surrounding its projections in the EFO is to construct confidence intervals around a central estimate using historical forecast errors. For the dates that precede the OBR’s existence, the forecast errors used are those of the Treasury.

Model-based confidence intervals and model uncertainty do not feature extensively in the OBR’s work. Model-based confidence bands could be useful in the evaluation of the likelihood of meeting the government’s fiscal targets (see Box 18). To be able to construct such indicators of uncertainty, particularly on the fiscal side, the forecasting methodology of the OBR would have to be complemented with modelling approaches working at a more aggregated level. Although supplementing the OBR’s necessarily disaggregated bottom-up fiscal forecasts with top-down ones would be a useful cross-check, this again implies a need for additional resources.

Where model uncertainty is considered, as in the case of output gap estimations, the analysis plays only a limited role in the construction of macroeconomic and fiscal forecasts. The Page Review praised the amount of effort that the OBR puts into obtaining a range of estimates for the output gap – a key measure of slack in the economy playing a crucial role in both the medium-term macroeconomic outlook and the estimations of the fiscal stance in the economy. Ultimately, though, the OBR’s leadership forms a judgment

about the expected evolution of the output gap, and this single sequence of figures enters as an assumption into the macroeconomic forecast, and, in turn, has implications for budgetary predictions.

However, the OBR does examine a rich set of scenarios different from the central one, with fully calculated fiscal consequences, when it assesses the probability of meeting fiscal targets. It also estimates the sensitivity of target variables to key forecast parameters, for example estimating how wrong the central estimate of the output gap would have to be to breach a particular target.

It is good practice to consider multiple models to produce fiscal projections if data and resources permit the use of different modelling approaches. In such cases, the uncertainty in estimates revealed by the exercise could be communicated alongside the central projection.

One particularly nice feature of the OBR costing work is its careful evaluation and assignment of uncertainty ratings to the costing of each policy. The OBR evaluates each costing in terms of the modelling challenges faced, the data availability and quality, and the role of potential behavioural responses to the policy. Based on this, it ultimately comes up with an overall uncertainty rating at one of six possible rating levels: low, medium-low, medium, medium-high, high or very high.

Transparency and accessibility

Overall, the OBR has done an excellent job of presenting its work in a transparent manner, balancing its duties of comprehensiveness and maintaining a public record with outreach to a broad generalist audience. Recognising that its reports are not the only vehicle to boost transparency and accessibility among non-specialists, the OBR has, in particular, invested in digital communications as described later in this section.

Although detailed knowledge and primary usage of OBR reports remains largely confined to the OBR's immediate circle of stakeholders, a somewhat wider audience accesses OBR analysis and conclusions through intermediaries that distil and repackage the OBR's results, particularly through social media. As mentioned in Section on Context, the IFS and the Resolution Foundation play an important role in this regard.

Almost all stakeholders interviewed, specialist and non-specialist alike, raised publication length as a concern, principally in regard to the EFO – the length of the EFO grew substantially between 2010 and 2016, expanding from around 150 pages to 260 (excluding indices of tables and figures). The OBR is not unique in this respect – publication length is a challenge for IFIs in general and there is no one-size-fits-all perfect length. The Page Review also noted that while the level of disclosure reinforces the credibility of the fiscal and economic forecasting, it may come at the expense of limited accessibility for non-technical readers.

Recent analysis comparing economic and fiscal reports across six well-established IFIs finds that OBR reports tend to be longer and more "text heavy" than those of its peers (OECD, 2019[19]). This may be expected, given that the OBR is generating a comprehensive bottom-up fiscal forecast, but there is still value in periodically revisiting how the document could be made shorter.

The EFO serves different goals and audiences with different needs and particular interests. In addition to communicating the expected outlook for the UK economy and public finances in broad terms, it also has a reference and record-keeping function across the detail of the tax and spending system and other less transparent aspects of government fiscal action. Several stakeholders feel that the space devoted to record keeping (referring back to old forecasts, assumptions, errors, revisions and special issues) has increased, contributing to an undue expansion in the size of the publication.

In earlier years, much of the expansion can be explained also by more space being devoted to the analysis of uncertainty. Later, however, more analytical detail was gradually added on both the revenue and spending side of the budget (often in response to requests or questions from specialist stakeholders), and

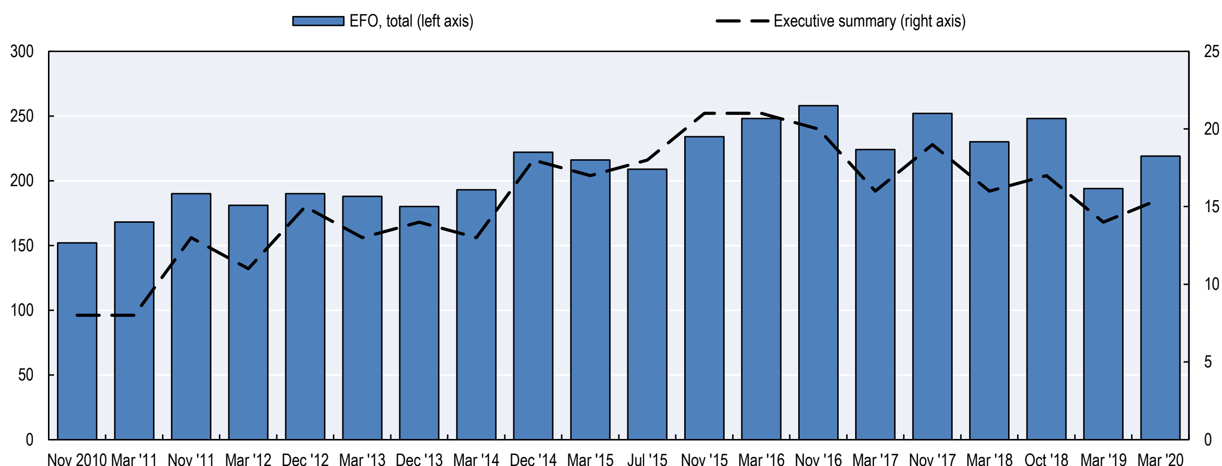
in the annex on how different policy announcements are treated (which reflects the gradual loss of analytical content and transparency from the Treasury's own policy costings documents).

While trying to maintain comprehensiveness, BRC members have recognised the publication length issue and the review team observed a reduction in the length of the text towards the end of the analysed period (Figure 36). In addition, the OBR provides a three- to four-page overview with summary chart (aimed mainly at the media) and a non-technical executive summary (these are also highlighted and separately linked at the top of the relevant EFO web page). The OBR may also wish to consider further consulting stakeholders. For example, in March 2019, the SFC undertook a limited qualitative survey on stakeholder views of its main forecast publication, *Scotland's Economic and Fiscal Forecasts*, which led to changes including of its length. The subsequent publication was significantly shorter than its predecessors (136 pages compared to 220 and 260 pages in previous versions).

Concerns about accessibility of reports for non-technical stakeholders are partially mitigated by the fact that the OBR produces outstanding supplementary material in its communication drive following the release of major reports. This includes infographics, animations, charts and short videos distributed through social media. These convey the key messages from the reports in an accessible form for a wide audience very effectively. For more technical audiences, the box sets helpfully extract self-contained elements in reports and make them available on line by topic. These communication products represent best practice among the OBR's peers.

Figure 36. Length of the Economic and Fiscal Outlook

Number of pages



Note: Total includes annexes.
Source: Authors, based on information provided by the Office for Budget Responsibility.

Parliamentary and media stakeholders have also praised the succinct presentations of the head of OBR as well as the approachability of OBR staff in answering clarifying questions.

The website's "In-Depth" section, together with OBR's briefing, working and discussion papers, provide a wealth of data and information that allow skilled observers to develop a good understanding of the data the OBR works with and how it approaches the analytical challenges faced when exercising its mandate.

The OBR has made the macro-econometric model, including the software code with equations, available to the public. This earned the OBR praise in the Page Review as an "extraordinary effort which surpasses

international standards". Further transparency gains could be achieved by demonstrating the workings of the model on widely scrutinised hypothetical shock scenarios.

Accessibility is, however, an issue in the case of the fiscal policy analysis toolkit (models used by HRMC and the DWP to help the OBR forecast particular revenue and spending streams). In this case, co-operation from government departments would be essential, as recommended in the Ramsden Review, to increase the accessibility tools and data.

Accessibility of the fiscal policy analysis toolkit is a concern also in the context of co-operation with the oversight bodies that scrutinise devolved administrations. Given the issues of communication and trust between oversight bodies of devolved administrations and UK-level government departments (see Section on Context), the shared use of the data, tools and expertise between UK government departments and the OBR presents the SFC with particular difficulties in obtaining essential input into its work. The OBR could continue to lead by example in transparency – as it did with the Welfare Trends Report it dedicated to the universal credit forecast – and thereby encourage more openness from the DWP or HMRC.

Quality control

The leadership of the OBR is chosen with a view to providing the guidance, judgment and feedback needed for staff to produce comprehensive and relevant output. The chair of the OBR provides an overall consistency check, ensuring that the focus of the publications is appropriate and that the coverage of the individual issues is accurate and in line with the core principles of the functioning of the OBR. One member of the BRC has always been an expert in macroeconomic analysis; another is an experienced fiscal economist.

The BRC seeks external advice both systematically, including through its Advisory Panel, and on an *ad hoc* basis to obtain feedback on existing work and to gather expert insight on issues pertinent to the period of analysis. As mentioned in the previous section, there is room to both engage more intensely with the Advisory Panel and to widen the pool of experts called upon to provide advice, peer review or evidence on a particular set of issues.

Comparison with other independent fiscal institutions

The review team looked at output from several peer institutions, including the Italian Parliamentary Budget Office, Portugal's Public Finance Council (CFP), the Netherlands' CPB and the Slovak CBR, to obtain an international comparison group.[20] These peers all devote extensive resources to produce macroeconomic and fiscal forecasts, cover the short-, medium- and long-term horizons in their analysis, and operate within a rules-based framework requiring them to evaluate (the likelihood of) compliance with numerical fiscal targets. The CPB alongside the OBR is the only other official forecasting body among the IFIs operating in Europe. At the same time, however, we draw inspiration from the best practice as carried out by IFIs of any size and mandate in the areas identified as issues above.

When it comes to the EFO, the FSR and the FER, the OBR's work continues to stand out in terms of depth, degree of disaggregation and analytical decomposition, clarity of presentation, and consideration for uncertainty. The work on the EFO is on par with the output of the CPB – a well-established and much respected forecasting body (see also Table 24).

The CFP is the only institution that currently publishes an analogue of the FRR. The scope and level of detail in the OBR report is significantly greater relative to the CFP report. There are plans to introduce this type of a report in other IFIs. Over time, there will be opportunity to share experience and develop refined templates that may go beyond what has been recommended by the IMF. As was the case with the FSR, the OBR's FRR is work other IFIs are looking to learn from.

The OBR produces fewer working papers than some of its peers, mainly due to resource constraints. For comparison, the larger AIReF produced six working papers in 2015 and 2018 and three in 2016 and 2017. This volume was dictated largely by the need to find adequate tools to address questions related to AIReF's mandate, much of the work pushes the boundaries of applied public finance analysis in the context of Spain. Slovak CBR staff have also produced a handful of working and discussion papers a year, and have published some of them in peer-reviewed journals. Staff at the CPB, a body with a much broader mandate and capacity, produce 20-30 discussion papers each year, often of a more academic type, some of which also get published in peer-reviewed journals.

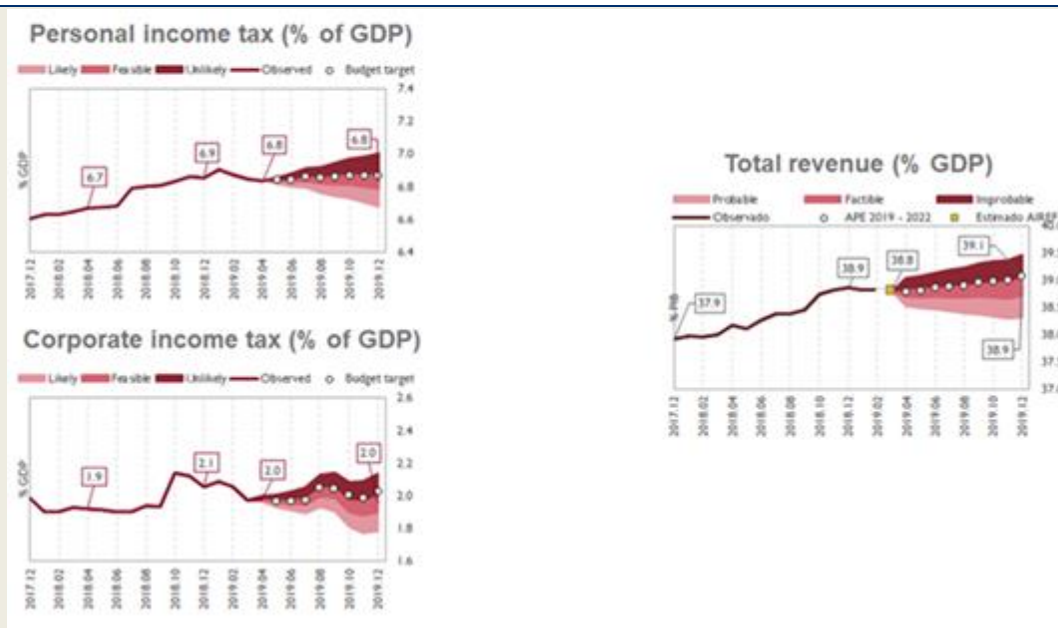
Other IFIs are also more likely to embrace a variety of statistical modelling techniques to obtain additional estimates for certain variables describing the macroeconomic and fiscal outlook that are complementary to a main, more structural or bottom-up approach to modelling used to obtain economic and fiscal projections. In addition to its main macroeconometric model, the CFP, for example, uses a VAR model to obtain short- to medium-term GDP forecasts, and has experimented with nowcasting methods too. The Italian and Slovak IFIs have done similar work with VARs and nowcasting as well. On the fiscal side, AIReF uses a VAR-based setup to assess the likelihood of meeting a public debt target and uses VAR-based short-term projections and confidence intervals to look at the revenue and the spending side of the budget too (Box 18).

Other countries have also invested in improving access to the tools used to cost policy measures. The Slovak CBR, for example, has published a user-friendly interface that computes, using the institution's microsimulation tool in the background, the aggregate fiscal and distributive effects of a potentially wide range of parametric changes to the country's tax and benefit system. Modelling work in this area is, however, not always the domain of the local IFI. In Austria and Finland, government departments have developed such online tools.

Box 18. AIReF's approach to estimating and communicating uncertainty

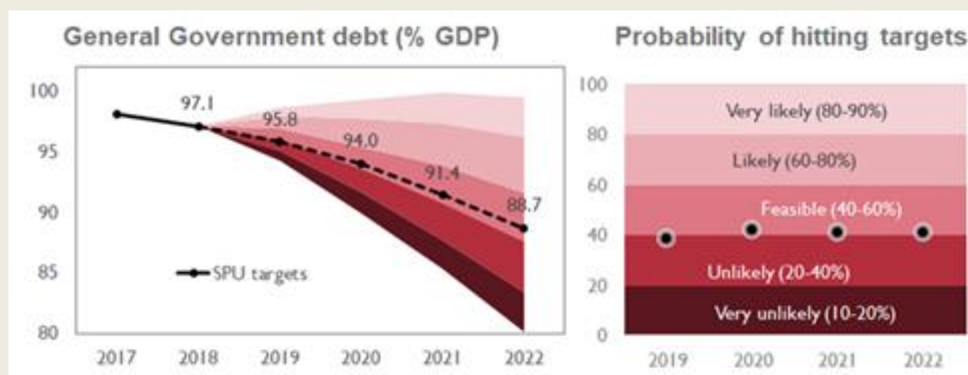
Spain's AIReF relies heavily on VAR-based methods to construct confidence intervals around its estimates. AIReF's forecasts for non-financial revenue, non-financial expenditure and fiscal balances are updated on a monthly basis, taking into account the results of its own models for taxes, contributions, unemployment benefits, pensions and interests, and the known national accounting data.

Confidence intervals are then constructed using a two-stage approach. First, a VAR model is estimated for the following variables: sub-sector specific variables, such as expenditure, revenue and debt-to-GDP ratio; and common variables referring to the national aggregate: real GDP, GDP deflator and ten-year government bond yields. Second, using projected trajectories for the different variables and the estimated joint distribution of VAR shocks, 15 000 probabilistic scenarios are constructed. The construction of the confidence intervals for fiscal aggregates thus follows a bottom-up approach, taking into account historical covariances among variables.



AIReF also produces quarterly updates on whether the government is likely to meet its public debt target. This is also a VAR-based exercise done at the level of fiscal and macro aggregates, and the confidence intervals are constructed by bootstrapping. A clear limitation of this approach is that it relies on past experience. As a result, periods of increased uncertainty show up in the form of widened confidence bands with a considerable delay and unprecedented events may *ex post* lie well outside the confidence bands constructed in real time.

The different percentile bands are converted into five verbal categories, which makes communication of the main message to the broader public easier.



Source: AIReF (2018[31]).

Table 24. Assessment of the Office for Budget Responsibility's key outputs relative to peers

	How well does the report fulfil the legal mandate?	How does the content and methodology compare to international standards?	How does the content and methodology compare to those of peer IFIs?
Economic and Fiscal Outlook	The EFOs satisfy both the principles of delivery and expected content as set out in the Charter for Budget Responsibility.	The EFO relies on standard empirical approaches with proven practical relevance to produce a comprehensive projection for the macroeconomy and public finances. Some central banks have been using approaches grounded more in theory with an emphasis on internal consistency and the forward-looking nature of economic decisions as an alternative or complement to the more empirical and backward-looking methods. While these approaches may not be suitable for the OBR's core model, they could potentially be used as a consistency check on a subset of variables.	The EFO is comparable to similar output by the Netherlands' Bureau for Economic Analysis, which is a mark of quality and depth. Some independent fiscal institutions take model and model-based uncertainty more explicitly into account.
Fiscal Sustainability Report (FSR)	The OBR complies with the requirements set out in BRNA Act as well as the Charter in terms of frequency and content.	The OBR's work in the area defines international standards in terms of scope and depth of analysis, and transparency in accounting.	The FSR represents leading practice in the independent fiscal institution community along several dimensions. Coverage of intergenerational fairness is the most notable gap relative to some of its peers. The Congressional Budget Office also considers long-term macro-fiscal interlinkages explicitly in its work.
Forecast Evaluation Report (FER)	Although neither the BRNA Act nor the Charter provide detailed guidance, the OBR approached the task with commendable transparency and analytical rigour.	The report represents an exemplary level of transparency about the assumptions, judgments and methodological choices as well as errors (or accuracy) arising from those identified *ex post*.	The OBR report stands out in terms of the level of detail in scrutinising its own economic and fiscal projections. Like the Slovenian Institute of Macroeconomic Analysis and Development and the US Congressional Budget Office, the OBR could also provide a systematic comparison with the forecasting performance of relevant peers.
Welfare Trends Report (WTR)	The OBR has found two distinct ways of complying with the instruction in the Charter. Earlier WTRs (until 2016) had a broader scope. The recent "special issues"-type editions meet the mandate in a slightly different reading of the instruction. Both have their merits, but a periodic return to the broader scope could prevent losing sight of the bigger picture.	The report is quite unique in an international context, its origins and content having been motivated by concerns which are perhaps not as high on the agenda elsewhere.	Given the restrictions in the OBR's mandate not to evaluate alternative policies or examine distributive consequences of measures, the reports' scope cannot match that of comparable work done at the Congressional Budget Office, for example.

Conclusions

This review finds that the OBR's publications are of high-quality, meeting and surpassing international standards, and comparing favourably with peers. They are viewed as independent and as bringing significant transparency gains.

Stakeholders express great appreciation for the quality, detail and clarity of the presentation of the data and analysis in OBR publications and use OBR outputs as a benchmark and a source of crucial detailed information for their own analysis and projections. At the same time, almost all stakeholders interviewed

raised publication length as an issue and the OBR may wish to consult stakeholders further on this question as it strives for a balance between comprehensiveness and clarity of presentation.

To the extent that resources allow, the OBR should use the working and discussion paper series more extensively as a way of engaging with alternative analytical tools to provide a critical reflection on existing work, to assess the relevance of the current state-of-the-art techniques for applied policy analysis and to evaluate the importance of model uncertainty in the performance of its core mandate. As noted in Section on Context, the OBR could use its convening power to sponsor workshops or conferences to seek the feedback and input from the greater analytical community. Recommendations from the Ramsden Review on allocating capacity to do original research are yet to be implemented, as they were not funded.

To facilitate (re-)production of impact assessments of government policies by outside researchers and other interested entities, including devolved administrations, the OBR should continue increasing disclosure of models and methods (including codes) used in generating macroeconomic and fiscal projections.

Impact

Introduction

This section assesses evidence on the OBR's potential impact, mainly by reviewing its communications, with a focus on key channels such as media and the parliamentary debate. It also touches on fiscal transparency gains.

Unlike the majority of its peer IFIs, the OBR is the United Kingdom's official forecaster. It therefore has a more direct influence on the parameters of the annual budget. Nevertheless, the OBR is not a decision-making body and much of its influence still lies in its presence in the public debate through effective and timely communication.

Stakeholders see the OBR, and the OBR's chair in particular, as highly skilled communicators. The OBR has invested in communications from the outset and has garnered a significant media presence. The fiscal policy landscape in the United Kingdom is such that the OBR's messages may be amplified in the media by other think tanks, such as the older IFS and the Resolution Foundation, which also receive significant media coverage.

The OBR's ability to influence the public debate is enhanced by its good reputation. Stakeholders view the OBR as highly credible and praise it for bringing transparency gains and enriching the fiscal policy debate. This is in line with the Page Review, which concluded that the OBR had "succeeded in imbuing its work with a perception of independence and transparency," and that stakeholders had "confidence in the OBR's outputs."[21]

The parliamentary channel of debate may be less influential than in some peer countries, as the United Kingdom has a tradition of relatively weak *ex ante* parliamentary budget scrutiny. Nevertheless, the OBR has regular (if somewhat limited) parliamentary engagement and its work is picked up in the parliamentary debate. The OBR's main interlocutor in parliament is the TSC.

While the OBR assesses whether government is on track to meet its targets for the public finances, the United Kingdom is not part of the European fiscal compact and is not subject to European "comply-or-explain" requirements. In practice, however, it would be difficult for government to ignore an OBR assessment that it was failing to comply with its own fiscal rules, as statements to this effect are picked up in the media and the government does not publish a forecast of its own that it could use to claim the opposite. For example, in autumn 2019, the media covered a potential breach in the rules at several points: in September, following the OBR's appearance before the TSC after government's spending round statement; in November, when the OBR was prevented from publishing its restated March forecast due to

snap elections; and in December, just after the elections, when the OBR published its restated March forecast.

Influence in the public debate

A critical channel of influence for any IFI is the public debate. OECD Principle 8.1 states that IFIs "should develop effective communication channels from the outset, especially with the media" (OECD, 2014[3]). This assists in fostering informed constituencies that may then exercise timely pressure on government to behave transparently and responsibly in fiscal matters. While specialist stakeholders may engage with OBR reports directly, a broader public is most likely to access the OBR's work through media analysis and summaries of its reports. Media interest is also likely to attract the attention of key stakeholders, such as parliamentarians.

Since it was established, the OBR has invested in communications and its comprehensive communications strategy is considered advanced across OECD IFIs. With its latest Corporate and business plan, the OBR continues to have as an objective maintaining and developing its "communications with external stakeholders (OBR, 2018[32]). In line with this, the OBR recently increased staff with responsibilities related to strategy and communications from two to three people. This should help the OBR to weather any upcoming communications challenges as it transitions to new leadership. Effective communications have been facilitated by the communications expertise of the current chair, which is highly appreciated by stakeholders.

Traditional media

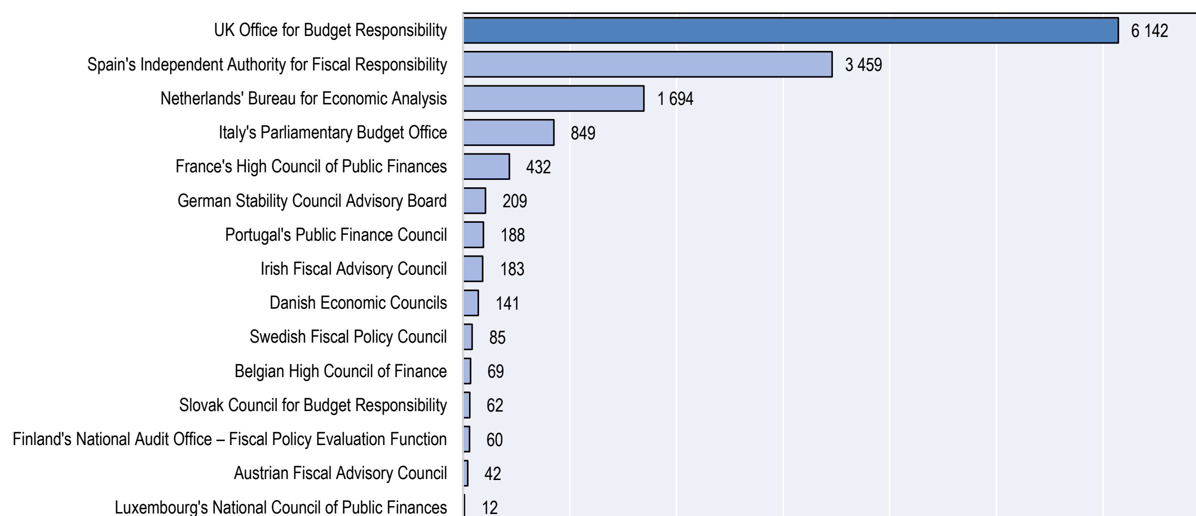
The OBR holds press conferences after the release of core publications. The most prominent are those for the EFOs, following the Chancellor's Budget Statement and Spring Statement. These are typically attended by around 20-30 journalists and analysts. The chair of the OBR presents the report's main findings and the BRC takes questions. The press conferences are also available to the broadcast media via a pooled stream and the presentation slides, speaking notes and a recorded version are posted on the OBR's website afterwards.

The OBR's chair also gives interviews in all large media outlets (such as BBC news, Sky/Channel 4/ITV and Newsnight) and some smaller radio stations. Live and recorded interviews usually occur on the release date of publications, with follow-up interviews afterwards. The OBR finds that these interviews have proven useful in communicating the reports' main messages to a wider audience.

The OBR grants on- and off-the-record interviews to print media outlets on request. OBR staff are accessible to journalists and regularly speak to the press on background, with demand peaking around key publications. Staff accessibility and the resulting background explanations serve as an important and highly useful complement to the more public presentations and interviews.

The OBR stands out among its peers in terms of print media coverage. A snapshot of this is demonstrated by a Factiva search of mentions of the OBR in European media by the think tank Bruegel. It found that the OBR had the highest average number of mentions in comparison to other European IFIs by a wide margin, although actual yearly mentions dropped in 2018 (Claeys, 2019[33]).

Figure 37. Average annual media mentions for European independent fiscal institutions, 2012-18

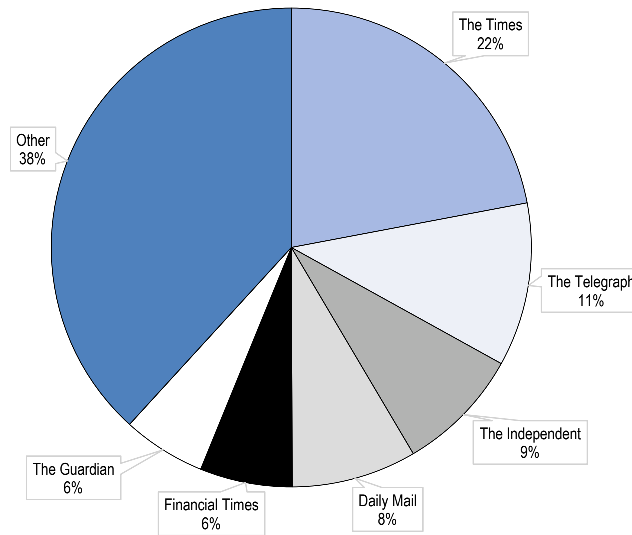


Source: Factiva search of over 3 800 European media sources in Claeys (2019[33]).

Using Factiva, the OECD review team also collected data on UK media mentions[22] covering a four-year period (from September 2015 to September 2019, starting directly following the Ramsden Review). During that period, the OBR demonstrated high media penetration, with around 13 600 total mentions.[23] Moreover, the OBR is regularly mentioned in articles in newspapers with the highest circulation numbers in the United Kingdom along the left-right political spectrum (Figure 38). Specialist press such as the Financial Times also regularly mentions the OBR.

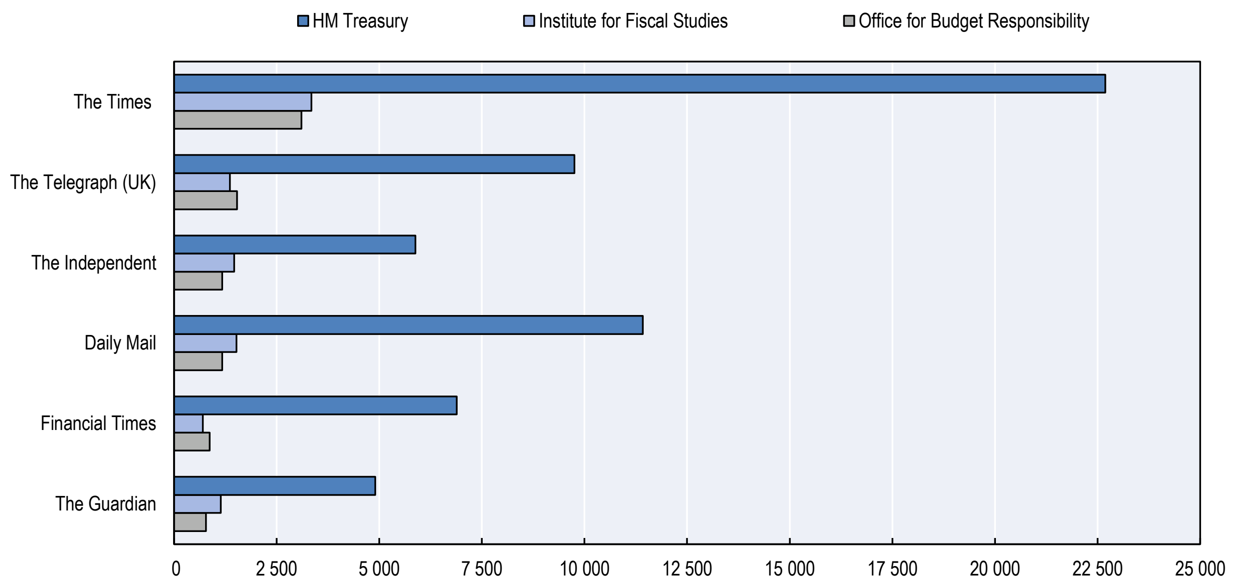
A comparison of mentions between the OBR and the IFS in key sources (Figure 39) finds that the OBR has a similar number of mentions as that of the much older IFS,[24] considered one of the most influential voices in the economic debate and known for its media savvy. Or, as a former economics editor of the BBC and political editor of ITV news put it in a 2016 article on the influence of the IFS, “Basically, when the IFS has pronounced, there’s no other argument. It is the word of God” (Akam, 2016[34]).

Figure 38. Office for Budget Responsibility press coverage by key source, September 2015-September 2019



Note: The data include articles that appear in both national, regional, print and online editions.
Source: Authors, based on Factiva data.

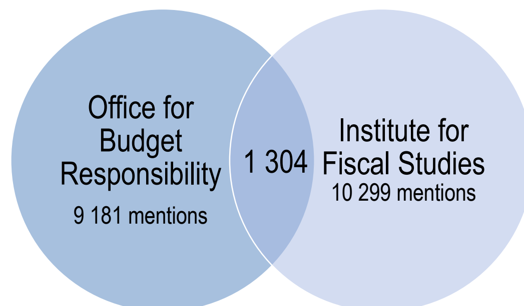
Figure 39. Media mentions by key source for the Office for Budget Responsibility, the Institute for Fiscal Studies and HM Treasury, September 2015-September 2019



Note: The data include articles that appear in both national, regional, print and online editions.
Source: Authors, based on Factiva data.

In addition, articles mentioning both the OBR and the IFS account for around 7% of mentions, thus potentially amplifying key messages during periods when coverage peaks for both institutions, such as budgets, Spring Statements and election periods (Figure 40).

Figure 40. Overlap in key source mentions of the Office for Budget Responsibility and the Institute for Fiscal Studies, September 2015-mid-November 2019

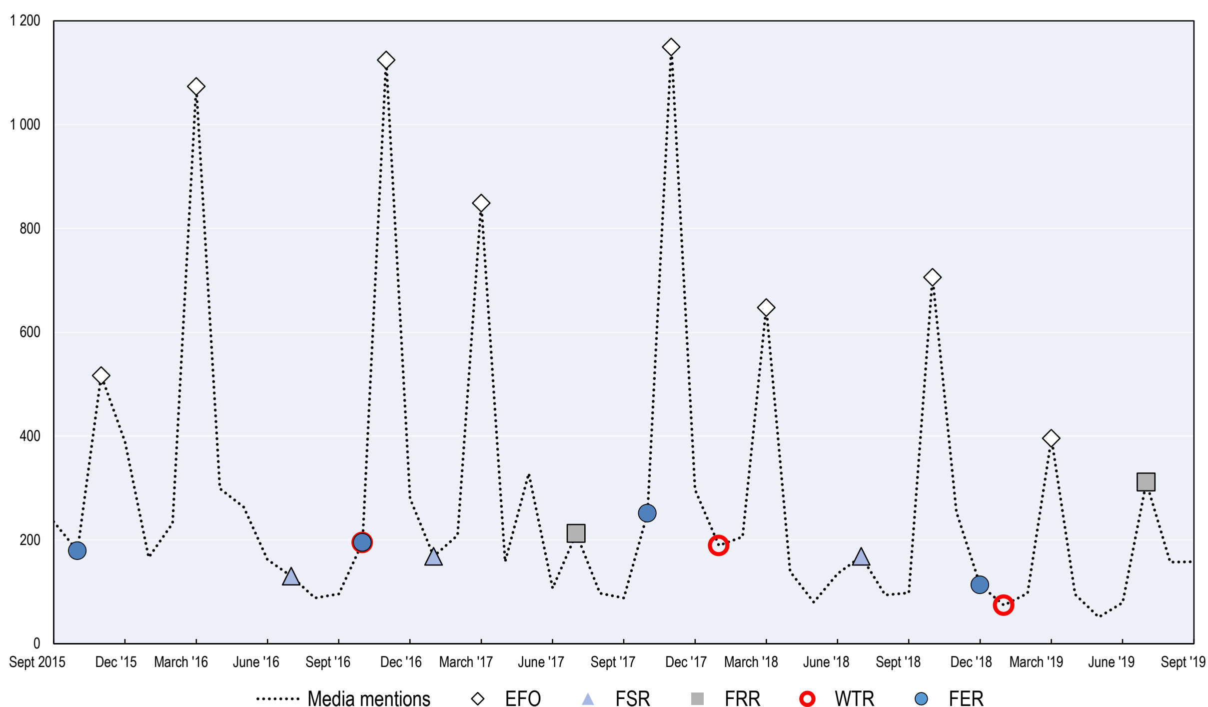


Note: Sources include The Guardian, The Financial Times, Daily Mail, The Independent, the Telegraph and The Times. The data include articles that appear in both national, regional, print and online editions.
Source: Authors, based on Factiva data.

The OBR focuses its communications around its core reports, keeping "noise" to a minimum. There are clear peaks in media coverage at the release of the EFOs, which inform the budgetary debate (Figure 41). By comparison, the OBR's other reports have little media prominence, although the two FRRs received a small spike in mentions, with much of the coverage for the 2019 FRR focused on the OBR's analysis of a no-deal Brexit scenario.

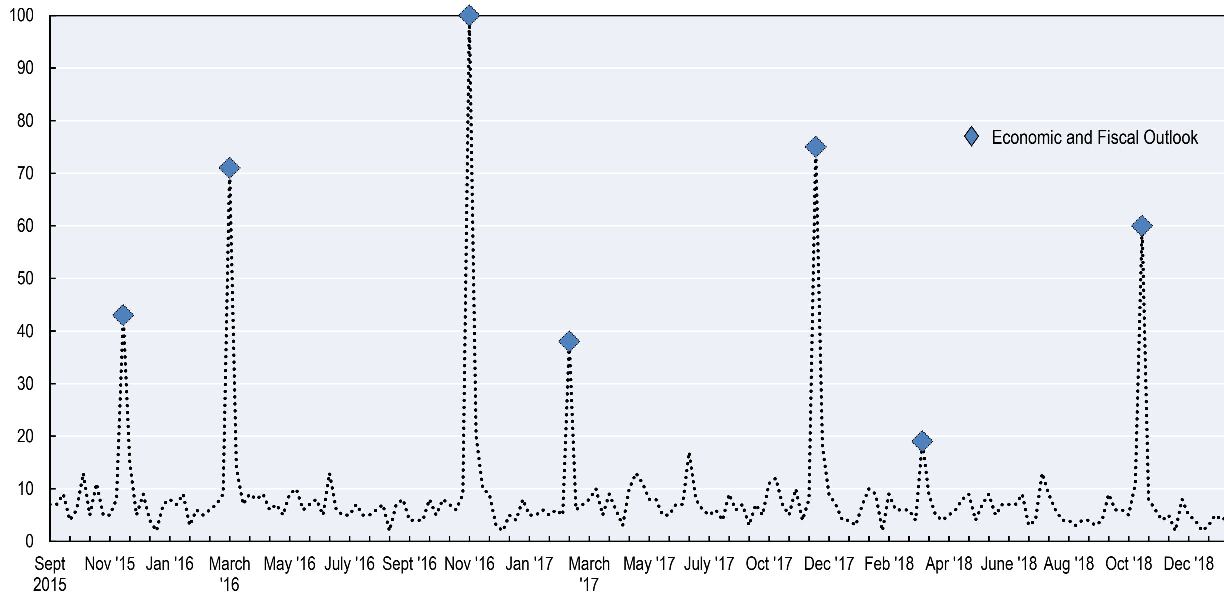
That the OBR's focused communications strategy raises public interest in a predictable manner around key moments in the budget process can also be seen through data from Google Trends. Debrun (2019[35]) shows via the weekly Google searches for "Office for Budget Responsibility" that interest in the OBR peaks around the Budget and Spring Statements when the EFOs are published.

Figure 41. OBR press coverage and report publication, September 2015-September 2019



Notes: In July 2016, the Office for Budget Responsibility published analytical papers on fiscal sustainability in place of an FSR.
Source: Authors, based on Factiva data.

Figure 42. Weekly Google searches for "Office for Budget Responsibility" in the United Kingdom, September 2015-January 2019



Note: Numbers expressed in per cent of the maximum number of Google hits over the period.
Source: Authors, based on Debrun (2019[35]).

Website and social media

The OBR's website is where stakeholders are most likely to access its work[25] and it has proven effective in fostering transparency around the institution's work and operations. The website remains the OBR's main communication tool, where it publishes all of its reports and papers, along with supporting documents (spreadsheets, infographics), briefing materials, databases, press releases and presentations from press conferences, and evidence to parliaments.

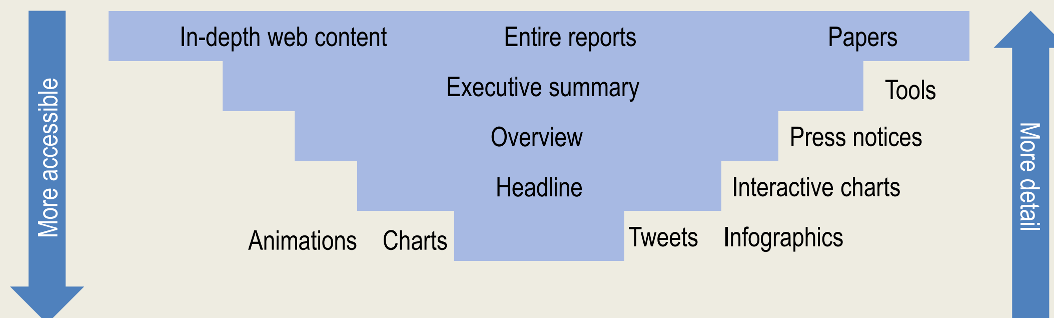
Underlining its commitment to good governance and transparency, the OBR also publishes details of its governance terms of reference, minutes of board meetings, and annual corporate and business plans. The OBR proactively discloses evidence to parliaments, requests for information, letters (mainly between the chair and figures in the UK government and parliament) and a log of substantive contact made between ministers, special advisers, private office and opposition members of parliament and the OBR. Finally, the OBR maintains a public log of hospitality received and expenses incurred by the BRC, all OBR expenditure over GBP 500 and staff post details. This level of disclosure is commendable and goes beyond what is standard among peer IFIs.

The OBR has previously sought feedback on its website through an anonymous survey. While the results of the survey were generally positive, some respondents highlighted that the search and navigation required some improvement. The OBR is working to redesign sections of the website to facilitate ease of use, progressively improve navigation, increase the prominence of products beyond key publications, and build in an enhanced search function. It aims to launch the new design in September 2020.

The OBR has a clear communications strategy for developing web and social media content, using a tier system that presents messages at different levels of detail (Box 19).

Box 19. Converting analysis into content on digital communications channels

In order to shape analysis into content, the Office for Budget Responsibility uses a tier system whereby detailed content is produced for those who have the time and knowledge to read it, and short, simplified or snappy information is produced or repackaged for those who do not have the time, or who just have a general interest. The message is the same but presented in different ways.



As a practical example, for the OBR's flagship forecast report, at the top would be the 250-page document, the executive summary which highlights key messages in roughly 10 pages, then the overview that translates these messages to roughly 2 pages. From this overview, the OBR takes snippets of information and creates a "hero" or headline for the website's home page. Then the OBR picks out main messages to show in animations, chart, tweets with quotes from the report or infographics.

Source: Authors, based on information provided by the Office for Budget Responsibility.

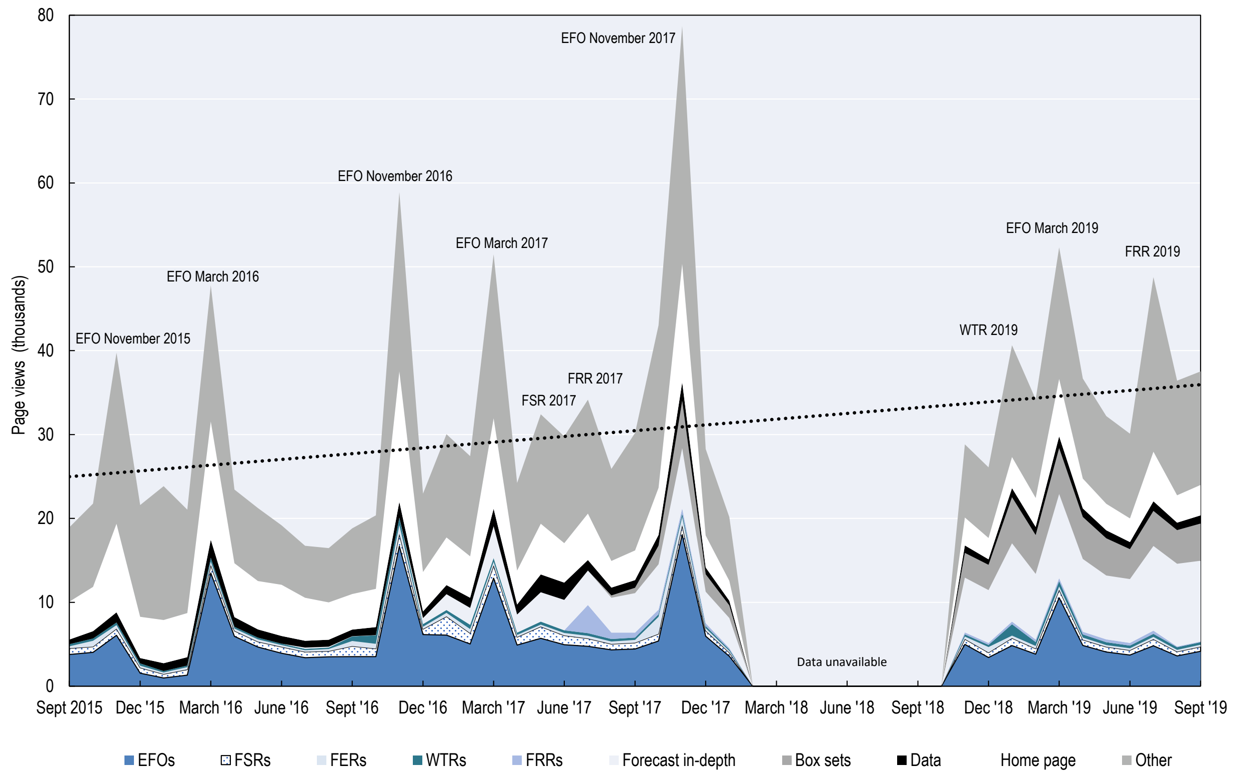
Data on unique page views show the number of hits clearly increasing over time[26] (Figure 43) and that spikes in traffic occur around the release of key reports, in particular the EFOs, which count for around 20% of the OBR's annual web traffic (by contrast, the OBR's other reports combined account for only around 5% of web traffic). The OBR has observed that the release of key reports also drives traffic to other pages on the site.

The increasing number of visits to the forecast-in-depth pages shows the value of the investment the OBR has been putting into its supplementary online material since 2017. The forecast-in-depth page was launched in the second half of 2016; in 2017, it accounted for 11% of web traffic.

Social media, specifically Twitter, has also become a major channel for dissemination for the OBR, bringing a wider circle of informed readers that directly quote, clip, link and share material. Tweets tend to receive the most attention when they are retweeted by widely read journalists, academics or think tanks that have a larger following than the OBR itself.[27]

The OBR uses Twitter to promote its publications and data, and to announce events, appointments and vacancies. The focus is on the OBR's work, minimising the noise-to-signal ratio. The OBR does not retweet other Twitter posts or engage in debates with other users, to avoid any perception of bias.

Figure 43. Total number of hits to the Office for Budget Responsibility's website, September 2015-September 2019

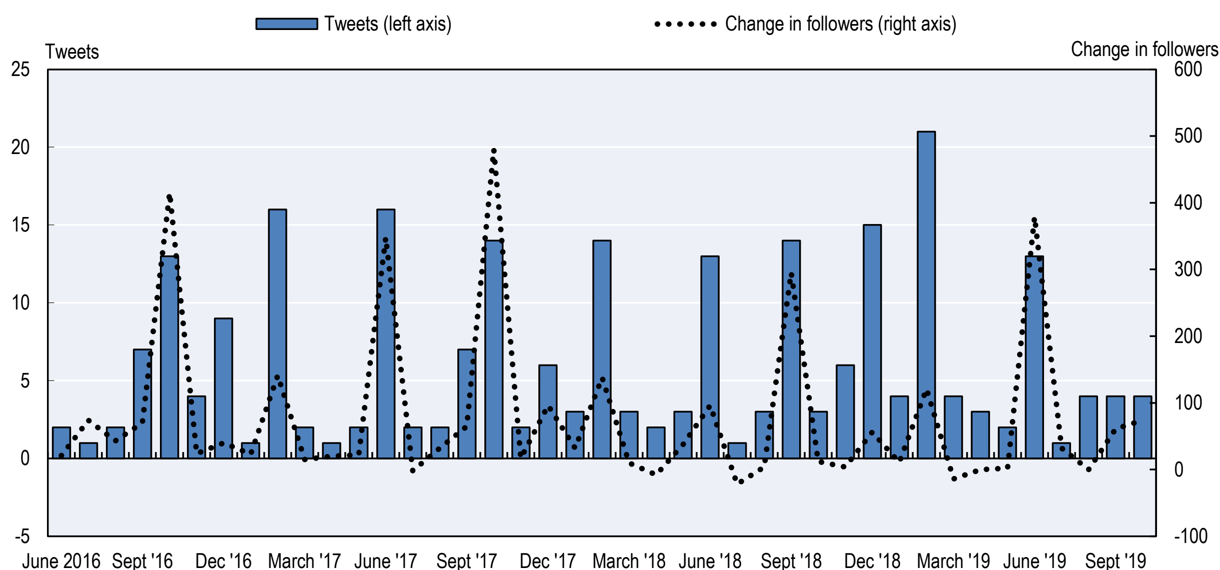


Notes: Data is unavailable for February-October 2018.
Source: Authors, based on information provided by the OBR.

In line with good practice among peers, at the release of each publication, the OBR tweets infographics and simple visuals with key messages. More recently it has been using animations. This strategy appears to have paid off as Twitter engagement tends to peak around report release dates (Figure 44). The EFOs and the FRR have tended to bring in the most new followers. However, the April 2020 Coronavirus reference scenario surpassed all previous engagement with more than eight times the views of the best performing EFO tweet.

The OBR's number of followers has continued to grow over time, essentially tripling since the Page Review. In the first half of July 2020, the OBR had 10 900 followers, having received a bump of 1 600 new followers after the release of its first Coronavirus reference scenario in April. Table 25 shows that the OBR fares well in comparison to peer IFIs in terms of number of followers.

Figure 44. Office for Budget Responsibility tweets and net new followers, June 2016-October 2019



Source: Data provided by the Office for Budget Responsibility.

Table 25. Number of followers of selected OECD independent fiscal institutions on Twitter, July 2020

Institution	Number of followers on Twitter	Followers per million population	Year joined
Office for Budget Responsibility (United Kingdom)	10 900	164	2011
Bureau for Economic Analysis (Netherlands)	9 690	563	2010
Independent Authority for Fiscal Responsibility (Spain)	6 239	133	2014
Parliamentary Budget Office (Canada)	2 687	72	2014
Parliamentary Budget Office (Italy)	2 213	37	2014
Fiscal Council (Ireland)	1 353	280	2014
Scottish Fiscal Commission (Scotland)	1 199	220	2016

Source: Authors, based on public information.

Parliamentary debate

The Budget Responsibility and National Audit Act (2011) requires that all of the OBR's legislated forecasts and reports be laid before parliament. Members of the BRC also give evidence to the TSC after each forecast is published. TSC stakeholders met for this review praised the OBR for its balanced analysis and praised the OBR's leadership and staff for their accessibility.

The OBR's chair also appears at least once a year before the Scottish and Welsh Parliament Finance Committees to give evidence on the devolved tax and spending forecasts. This is highly appreciated by subnational parliamentary stakeholders.

Outside of the above, it is rare for parliamentary committees to invite the OBR to give evidence. Two recent exceptions have been an evidence session with the Public Administration and Constitutional Affairs Committee on governance of statistics in March 2019 and the Work and Pensions Committee on the Spending Review in July 2019. These examples are a positive step towards greater parliamentary

engagement, but more could be done to bring messages from the OBR's work to relevant debates, as has been done by peer IFIs, for example on issues such as pension reform.

Apart from engaging on reports, the TSC has the chance to hear from BRC members and to look more closely at elements of the OBR's operations during appointment processes. The TSC also took the opportunity to look at several issues following the Page and Ramsden Reviews. Its report on *Reviewing the Office for Budget Responsibility* (House of Commons Treasury Committee, 2016[36]) raised some challenging questions around the independence of the recommendations in the Ramsden Review and highlighted the need for appointments to be done in a timely manner.

The TSC report also showed its support for OBR's independence, probing in-depth whether Treasury requests for changes to the December 2014 EFO during the exceptional pre-release period "strayed beyond the factual" and raising concerns about "a lack of understanding in the Treasury about the importance of OBR's independence." At the same time, the TSC signalled its confidence in the OBR Chair's "personal resilience to pressure from Ministers and officials, and his willingness to speak his mind."[28] Finally, the TSC report took up the question of expanding the OBR's mandate to include carrying out electoral policy costings.[29]

Since that report, the TSC has only asked the OBR once for evidence on topics outside of the EFOs and appointment processes (when it asked the OBR to contribute to its inquiry into the Treasury's 2019 Spending Round).

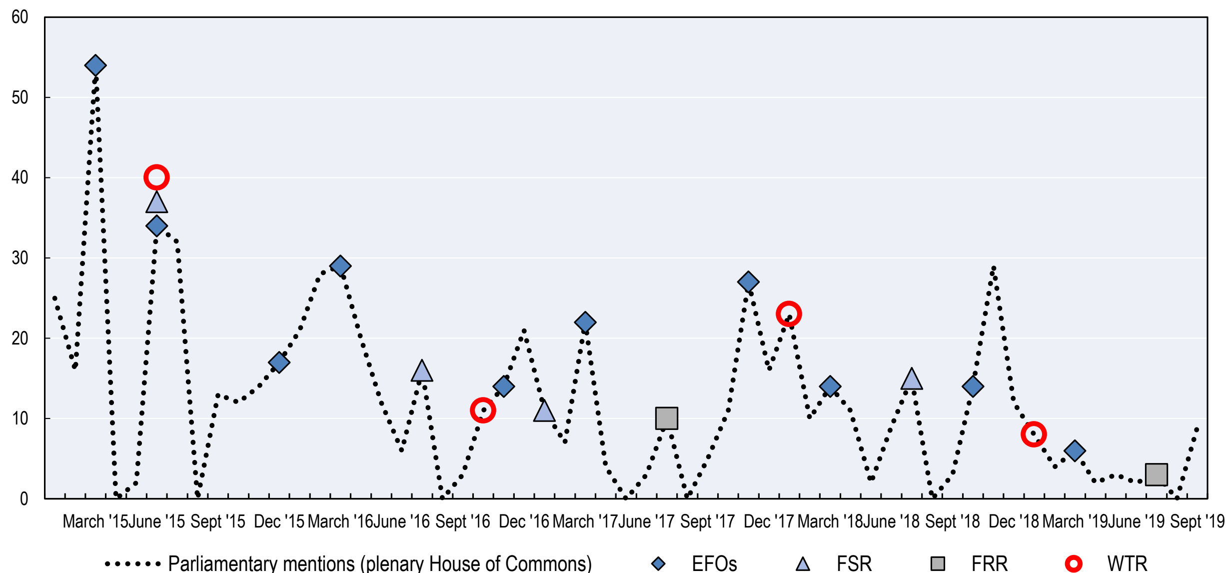
While the TSC holds evidence sessions for the EFOs, it does not do so for the OBR's other reports, thus limiting parliamentary scrutiny of the OBR's outputs. The one exception to this is an evidence session on the 2013 FSR where the TSC concluded that the FSR should be produced less frequently (a similar recommendation was adopted following the Ramsden Review).

The incoming OBR chair, in his former capacity as an official at the IMF, praised the FRR as "a mechanism for Parliament and the public to assess the adequacy of the government's strategies for managing these risks, and hold it to account for their implementation" (Hughes, 2018[37]). But the lack of TSC engagement on the OBR's reports outside of the EFOs shows a missed opportunity, particularly in the case of the still fairly new FRR, where a corresponding lack of scrutiny of the government's response does little to promote the important transparency gains this report represents. Moreover, the July timing of the FRR (and the FSR), just before parliament typically goes on recess, does not encourage parliamentary scrutiny.

A similar story emerges when looking at parliamentary mentions in the plenary. Parliamentarians are generally aware of the OBR and the OBR is regularly mentioned in plenary debates, although the overall annual number of mentions has been declining. However, while spikes in mentions appear to correspond with the release of OBR reports, further analysis shows that this is borne out only for mentions related to the EFO. The other reports have received strikingly few mentions, less than ten each for the WTR and the FRR since they were first published in 2014 and 2017, respectively. The FSR fares similarly, with 44 mentions in total but an average of only around 5 per report since it was first published in 2011.

As concrete examples, the modest spike in mentions of the OBR in July 2018 is not related to the release of the FSR, but rather to a one-day debate on the remit of the OBR. The FSR was only mentioned once when a member of parliament listed the publications that the OBR produces. The spike in mentions of the OBR in January 2018 is mainly related to debates on leaving the EU and the finance bill. The WTR is not mentioned at all.

Figure 45. Mentions of the Office for Budget Responsibility in parliament, March 2015-September 2019



Notes: Mentions in plenary, House of Commons. In July 2016, the Office for Budget Responsibility published analytical papers on fiscal sustainability in place of a Fiscal Sustainability Report.
Source: Authors, based on public information available in the Hansard: https://hansard.parliament.uk/search/Contributions?startDate=2010-05-01&endDate=2019-05-10&searchTerm=%22office%20for%20budget%20responsibility%22&partial=False.

Continuing fiscal transparency gains

Stakeholders widely credit the OBR with increasing fiscal transparency, citing in particular publication of data not previously available when the Treasury produced the forecasts. This has been particularly important on the fiscal side, where there has traditionally been less public information and where there is less expertise across think tanks and academia. As noted in Section on Context, the OBR's clear and transparent presentation of information enables third parties to pick out the most salient issues to address in the public debate – or as one stakeholder remarked, the new information provided by the OBR allows think tank and academic colleagues to spend less time doing detective work and more time analysing policy trade-offs.

Transparency gains were affirmed in previous reviews – the Page Review found that OBR reports "demonstrated high levels of transparency regarding disclosures, risks and sensitivities" and "lent themselves to additional analysis by third parties." The Ramsden Review noted that "A marked increase in transparency has led to greater trust in the integrity of the forecasts."

This greater trust appears to be well-founded. The IMF's 2016 Fiscal Transparency Evaluation of the United Kingdom stated, "the OBR's forecasting record indicates a lower degree of bias than under the Treasury forecasting regime" (IMF, 2016[38]). In the 2018 FER, the OBR also assessed that:

> *"For what it is worth, our economy forecasts have been significantly more accurate on average than those of the previous 20 years, based on the mean absolute forecast difference. But comparing the median absolute forecast differences shows that this is almost entirely down to recession years that represent outliers in the distribution of forecast differences. By contrast, our fiscal forecasts outperform the previous 20 years both on the mean and median comparisons. But the outperformance is greater for the mean, showing that the recession effect to some degree flatters this comparison too." (OBR, 2018[39])*

Among examples of new data published are the supplementary tables to the EFO, some of which predate the OBR but have been significantly enriched, and some of which have been added in response to requests.[30] These include expenditure tables, economy tables, and receipts and other tables.

For example, on the economy side, tables include many model variables in quarters, calendar years and financial years. On the fiscal side, the OBR provides a breakdown of policy decisions listing all policies on the Treasury's scorecard. Previously, the Treasury only published the total exchequer cost or saving for each policy. The OBR also provides a list of policies that are not on the Treasury's list of measures but affect the overall level of borrowing and debt ("non-scorecard" policies) and describes how they affect the United Kingdom's fiscal position.

Public sector net debt is another area where the OBR has increased available data. Previously this was only a small paragraph in the Treasury's Budget 2010 document. By contrast, the OBR provides a full discussion with charts and tables.

Several of the OBR's databases are also worth noting:

- The *Public Finances Databank*, initiated by the Treasury, but the OBR has added considerable detail since.
- The *Historical Forecast Database* collates around 100 of the OBR's forecasts since 2010, as well as the Treasury's public finance aggregate forecasts from as early as the 1970s. Although this was publicly available information, the OBR initiated putting it into a consolidated database, thus making it more accessible.
- The *Policy Measures Database* shows all policy measures since the 1970s on taxes, and since June 2010 on spending. Previously these data were published in separate reports. This database is particularly popular among stakeholders.

Conclusions

The OBR has achieved the goal of reducing bias in the forecasts and improved accuracy. Stakeholders report that the OBR has made the greatest impact in terms of fiscal transparency and that they have higher trust in the "numbers".

The success of the OBR's focused communications strategy can be seen across different entry points to the public debate – traditional media, website and social media, and the parliamentary debate. The OBR stands out among peer IFIs in terms of media coverage.

Since the previous reviews, the OBR has increased the accessibility of its materials and is making greater use of online and social media channels. Nevertheless, the majority of engagement is with the EFOs, with other OBR reports mainly serving a set of specialist stakeholder audiences. The OBR should explore how to broaden engagement with its outputs outside of the EFO. In particular, the lack of parliamentary scrutiny of the FRR and corresponding lack of scrutiny of the government's response does little to promote the important transparency gains this report represents. The OBR should explore ways to ensure that the messages in the FRR and the government's response receive greater attention.

Although the OBR is clearly embedded in the political debate within parliament, discussions in the TSC have generally been limited to the OBR's macroeconomic and fiscal forecasts and operational issues. As noted above, there remains scope for the OBR to engage further with the TSC on reports outside of the EFO and to engage with parliamentarians beyond the TSC. For example, in line with good practices of peer IFIs, the OBR could hold a session during the induction period following elections or track relevant debates in other committees to see where it may be useful to highlight messages from its reports.

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Notes

[1] Notice was significantly less than the ten weeks' public notice the OBR is supposed to receive.

[2] Similarly, the Cabinet Secretary decided that the Treasury would not publish its estimates of how much the Labour Party policies would cost if the opposition were to win the upcoming election.

[3] It is worth noting that proposed changes to Chapter 4 of the Charter must be published in draft form 28 days ahead of being laid in parliament. This contrasts with Chapter 3, which sets out the government's fiscal rules, where proposed changes are not subject to such a requirement.

[4] See, for example, Chote, Emmerson and Frayne (2006[40]).

[5] In principle, the Fixed Term Parliaments Act 2011 (UK Parliament, 2011[41]) should lead to parliamentary terms of five years, although in practice they have proved to be shorter. The renewal dates for the BRC members' contracts do not currently align with the parliamentary electoral cycle and the renewal dates for the three original BRC members were staggered to ensure that their terms did not all finish at the same time.

[6] See: https://obr.uk/topics/governance-and-reporting.

[7] The TSC is (by convention) chaired by a member of the ruling party and contains representatives from other parties in proportion to their share of seats in the House of Commons.

[8] See also comments made by Peter Dowd, MP (Shadow Chief Secretary to the Treasury) in evidence to the Procedure Committee, 27 March 2019: http://data.parliament.uk/writtenevidence/committeeevidence.svc/evidencedocument/procedure-committee/should-there-be-a-commons-budget-committee/oral/98904.pdf.

[9] See the Page Review (Page, 2014[1]) for an analysis of interdependence of the OBR with government departments.

[10] The MoU builds on a “shared principles” document developed by the OBR and the SFC in 2017.

[11] See for example, IFS presentation: https://www.ifs.org.uk/publications/8200.

[12] From 2014 to 2019, the OBR reported presenting to a wide range of external audiences in the United Kingdom, including the Government Economic Service, the Local Government Association, the Social Security Advisory Committee, the Institute and Faculty of Actuaries, the Trades Union Congress, the London School of Economics, and the Glasgow University Business School.

[13] At the time of this review, the OBR’s Advisory Panel included a former head of the Netherlands Bureau for Economic Policy Analysis. The chair of the OBR chairs the External Advisory Group of the Parliamentary Budget Office in Ireland.

[14] By contrast, as an independent parliamentary body, the National Audit Office and the Comptroller and Auditor General must jointly prepare an estimate of the National Audit Office’s use of resources, which is submitted to the Public Accounts Committee in parliament. The commission reviews the estimate and lays it before the House of Commons for approval. The National Audit Office is a much larger body, roughly 20 times larger than the OBR, employing around 800 staff.

[15] The National Infrastructure Commission, which based some of its corporate arrangements on the OBR’s, is another rare example of a body with this type of budgetary protection.

[16] This score of around 50% is lower than the comparable score for Treasury staff, which stayed around 60% over the same period, but is generally in line with the benchmark scores from the United Kingdom’s Civil Service People Survey.

[17] The Fast Stream has traditionally lacked diversity in other areas as well; for example, a 2016 independent assessment of access to the Fast Stream by socio-economic background found that the profile of the Fast Stream’s intake is “less diverse than the student population at the University of Oxford” (Bridge Group, 2016[42]; The Sutton Trust and Social Mobility Commission, 2019[43]). While the civil service is taking initiatives to diversify the intake of the Graduate Scheme, changes will take some time to feed through the system at higher grades.

[18] The Page Review concluded that the OBR draws upon the resources of numerous staff in government departments at different times throughout the year.

[19] These are among the OBR’s most popular website pages.

[20] In previous reviews, the OBR’s work was assessed mainly relative to its peers in Australia, Canada and the United States.

[21] Based on a stakeholder survey conducted by Page of non-parliamentary stakeholders: 130 survey questionnaires were distributed with 71 responses.

[22] Mentions in national, regional and local press tend to be in the context of national public finances. The same article may appear in different editions.

[23] Similar to the European data, a drop off in mentions was observed in 2018. However, it is not possible to establish a downward trend and, given the high media coverage the OBR's most recent Coronavirus reference scenario, it is likely that an upward movement in mentions will be observed in 2020.

[24] Established in 1969.

[25] The Page review found that 99% of the stakeholders surveyed accessed the OBR's work through its website.

[26] For the years where complete data on unique page views are available, the number increased from 248 402 in 2014 to 435 565 in 2017, or about 75%.

[27] For example, both the IFS and the Resolution Foundation have around 40 000 followers.

[28] While the TSC noted that it might again seek evidence "to ensure that that Ministers, special advisers or officials have not sought to influence the OBR's judgements and conclusions," so far it has not had cause to do so.

[29] The TSC held a one-off evidence session on the costing of pre-election policy proposals in 2014.

[30] The OBR's policy regarding requests is twofold: 1) data are sent directly to the requester and published on the OBR's website (HM Treasury has 24-hour pre-release access); and 2) data are added to the EFO supplementary tables and updated in subsequent EFOs.

Annex 1.A. Interview list

The review team would like to thank all those who contributed evidence and insights to this review, in particular individuals from the following institutions and groups who met with the review team during its mission to London in May 2019:

- Bank of England
- BlackRock
- Department for Work and Pensions
- European Commission Country Desk
- HM Treasury
- HM Revenue and Customs
- House of Commons Scrutiny Unit
- IMF Country Desk
- Institute of Fiscal Studies
- media:
  - Financial Times
  - The Observer
  - The Guardian
  - The Telegraph
- Members of the OBR's Budget Responsibility Committee (Andy King and Sir Charlie Bean)
- Members of the OBR's Advisory Panel
- Members of Parliament from the Treasury Select Committee and the House of Lords Economic Affairs Committee
- National Institute of Economic and Social Research
- Non-executive members of the OBR
- OBR chair (Robert Chote), chief and deputy chief of staff, team leaders and staff of the OBR
- Office for National Statistics
- Resolution Foundation
- Scottish Fiscal Commission
- Shadow Cabinet

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This issue consists of 5 articles: 1) Balance sheet-based policies in COVID-19 fiscal packages: How to improve transparency and risk analysis?; 2) Brazil: Moving the budget focus from the short to the medium term; 3) Budgeting in Bulgaria; 4) Implementing shared services in the UK central government: A five-year progress report using longitudinal bureaumetrics; and 5) OECD Review of the Office for Budget Responsibility in the United Kingdom.

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