“Public administration innovation: budget, accounting and control systems. Europe and the Mediterranean: comparison and avenues for interaction”

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Part I:
The European Case

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Workshop report 1 – 2 December

Day 1, 1 December

Introduction to the theme and reference context

There are marked differences between Great Britain, Italy, Germany, Spain and France in terms of the relationships between internal institutions and the level of maturity in budget reform. The only country that currently operates an accruals basis method with wide cost control is Great Britain, while Spain and Germany still use a cash basis accounting method, while at a local level, France and Italy use a double entry accounting system. These differences include, and can partly explain, the two different conceptions of the State and the Public Administration that still coexist in Europe, a Rechtsstaat, where the interlocutor is the citizen as the holder of rights and a State based on the concept of Public Interest that relates to the citizen as a client.

Budget Dynamics in Italy

During its history as a republic, Italy has seen four reforms in the accounting and financial system, in the years 1964, 1978, 1988 and 1997. The first reform was realised in the years of the first centre-left governments and was strongly influenced by the impetus of a country and politics that tried to respond to changes taking place, while the second was born in a climate of grave crisis in the old institutional systems, following important reforms such as the introduction of the Regions system into the Italian administration, and the foundation of the National Health Service. The reform of 1988 was launched in the climate of the five party system and lead above all to reform in the mechanisms of financial law, which were increasingly perceived by the ruling class as a bugbear. The response was to do away with the content of the financial laws, in favour of related measures in which control and taxation were extremely uncertain. This resulted in the paradox of manoeuvres that were planned, but never put into action. The whole debate in those years, and those immediately prior, came to prominence once more at the beginning to the ‘90s when, following the political crisis brought about by the wave of arrests for bribes charges, a new look at the question of accounting became necessary. In 1992 the Amato government set itself the ambitious aim of thoroughly reforming the state. The delegate law no. 421-92, known as the “Amato law”, was passed, which aimed to reform four vital nerve centres of the State:

• Public employment
• Local Bodies
• Social Security
• The Health System

The great reform of local bodies was implemented by legislative decree 77-1995, social security reform concluded in 1995 with the “Dini” law, while reform of the National Health Service transformed the old local health units into companies known as local health agencies, which were to be run on the basis of management criteria.

Public employment reform took place with legislative decree no. 29-1993. The aim of the decree was to put into act a radical division between public administration and politics, which up to that point had permeated every area of Public Administration. That law was based on the French administration model. The consequence of that law was the latest budget reform.

The central idea of budget reform was to make a distinction between a budget that served political decision makers and a budget aimed at improving administrative management. The law that derived from this, the 24-1997, known as the “Ciampi law”, tried to simplify items and reduce parliament’s interference in the development of budgets. This is how the distinction between functions and basic forecast units was born. The final improvement should have been made by using the notion of a Cost Centre, based on that of private accounting.

In 2005 there will be new and more thorough revision, which should then result in the instigation of further budget reform.

Financial Reform in Local Administrations

The OECD has identified four models of relationship between the state and local bodies: Centralised (Greece, Spain, Great Britain and Holland), Formalised Cooperation (Belgium, Denmark, Norway, Germany, Spain and Austria) an Absence of Coordination (Switzerland, the USA and Canada) and Central Regulation (France, Italy, Finland and Portugal).

Although the organic budget law of 1997 has simplified the system by making it more efficient, accounting systems still have to harmonise between different levels of government and give them more flexibility. ISTAT has produced an index capable of measuring the level of fiscal autonomy of local bodies. The formula of the index is FA= (FR+LR)/TR where FA equals fiscal autonomy, FR is financial revenue, LR is local revenue and TR is total revenue. Results have shown that municipalities’ level of local autonomy is equal to 66.2% while that of the provinces is equal to 48.6%.

It is to be hoped that reform in the internal stability pact will improve planning, consultation and incentives and will allow the centralised model to become a model of formalised cooperation.

Budget reform in Great Britain

In the UK, the Treasury has administrative control over spending.
Parliament has no power to add items of spending other than those presented by the executive, but can only stop measures. Budget reform in the UK has given increased responsibility to managers rather than to politicians. The whole responsibility for implementing budget policy lies with single departments. The department Accounting Officer is the manager responsible and can also be called to appear before parliament. The Officer is nominated by the Treasury Ministry and answers to it.

Great Britain has concentrated on reform aimed at the concept of accruals basis method, which must be accompanied by a budget that gives results. The main problems posed by the system in Great Britain are:

- An excessive number of targets, which generates confusion.
- Management is bound to indicators that only evaluate performance.
- There is an excess of auditing

*The example of Germany*

The budget reform, whose fundamental principles are contained in Charter 10 of the constitution, was realised in 1998. The German budget contains no indication of the political programmes of the executive, but has the sole function of controlling the use and investment of resources. Accounts are classified by functions and targets. The previous budget system was orientated towards input and cash based accounting. The aim of the reform is to invert this system, orienting the budget towards, efficiency, targets and results. The reform will take place in each Länder according to the timescale and particular characteristics of each one. Some Länder, such as Baviera, will be merely observers of the reform, without having decided yet whether to put it into action.

There is a political audit and control system, with a Parliamentary Audit Committee and external financial control by the Supreme Audit Institution, together with internal control within Departments. The whole process of budget reform will be completely operative by 2015.

*Spain*

In Spanish accounting management, a fundamental element is that of consultation. There has long been a Fiscal Policy Council for this reason. The role of control is operated within the same Finance Ministry, by an organism that is similar to the Italian State Accountancy Board. An incentive system is important in order to promote collaboration between local bodies and internal innovation. Budget policy in Spain is based on a general law of budgetary stability (LGEP) and a supplementary organic law to the LGEP (LOC) of December 2001.
The main principles of LGEP are budgetary stability, multi-annual, transparency and efficiency.
There is bilateral negotiation between central government and autonomous regional government.
Public accounting has developed in three stages:
- Administrative accounting (1812-1977)
- Implementation of a double entry system
- Developing an IT system and managerial logic.
The reform is aimed at:
- Modernisation through the two-party system
- Developing an integrated accounting system through SICO Information System on Budget and Accounting)
- National Accounting Code
- The CANOA project (Normalised Analytic Accounting in Autonomous Bodies) for autonomous bodies

Governance and budget reform in France
Two great changes in the State occurred in the twenty years after the reform of 1982, with the introduction of the regions and in 2001 with the approval of LOLF, which will be operative from January 1, 2006.
In 2003, the revision of the constitution recognised the regions at the same levels as other local bodies and sanctioned the financial autonomy of local bodies.
The aim of this series of modifications was to radically change the state, putting the concept of ‘citizen’ side by side with that of ‘client’.
There are two types of logic in the accounting system, that of management and that of politics.
LOLF had the dual aim of increasing the power of Parliament and increasing the quality of management.
LOLF has in fact increased Parliamentary power on the one hand, while offering public managers credits functionality.
This is a movement away from cash accounting to company accounting.
The Audit Court will be given the responsibility of certifying the State budget.

The French administration is structured on four levels: State, Regions, Departments and Councils
The regions were created with law 213 of 1982 and were recognised at a local level alongside other local communities with the constitutional reform of 2003.
The main instrument that puts the subsidiarity principle into action in France is the Contract of State-Regions Plan, drawn up as part of a National Plan.
The accounting instructions for local communities are M14 for the councils, M52 for departments and M71 for the regions (which come into force on 1 January, 2005, and 2006 for overseas regions). The instructions for accounting are founded on principles of sincerity, independence and
prudence. Control a posteriori is the responsibility of the Prefect and of the
Regional Court of Accounts.
The main instrument for the regulation of transfers from the State to local
bodies is the "enveloppe normée", reformed with the finance laws of 2004.
Regional budgets for 2004 showed a rise of 7% compared to 2003.
2nd Day 2 December

Development, execution and control of the Lebanon budget

The Lebanese public accounting system is based on the French model. The legislative sources are the Constitution, the internal Parliamentary regulations, the public accounting laws and the Audit Court laws. The budget programme is elaborated by the Ministry of Finance. The proposals are then submitted to the Council of Ministers. The Chamber cannot alter the credits proposed during the debating session, but can afterwards approve laws that may entail new expenditures.

The Lebanese budget is implemented in accordance with the French model: there is a sharp distinction between the parties who determine the execution of revenues and expenditure, but cannot liquidate revenue and cannot allocate and liquidate expenditure, and those who control the disbursement of expenditure, maintain funds, and keep accounts.

Control at administrative level is held by the Ministry of Finance and exercised by the Inspectorate General of Finances, which reports to the Ministry of Finance.

The Audit Court exercises its traditional ex ante and ex post control functions.

Tax decentralisation in Lebanon

The 1997 law of fiscal decentralisation increased spending efficiency, financial stability and made a contribution towards the alleviation of poverty.

Administrative and financial control of the municipalities is exercised by the national government through a series of agencies.

In order to improve relations between the tax authorities and the public, the CRO (Citizen Reception Offices) were created, numbering 29. An internet website was also created as part of the CRO programme, facilitating communication between the centre, the citizenry and the municipalities (www.moim.gov.lb).

Budget reform in Tunisia

The Budget organic law dates from May 2004, while the public accounting code dates from 1996, replacing the 1968 one.

The principles are those of the French system, so there is a rigid distinction between managers and public accounting staff. As in France, a single party system operates.

The public control system, based on the one instituted in 1912, has only an ex ante control function. It was modified in 1989, extending its scope also to ex post control and rendering preliminary control more flexible.

Concomitant control is exercised by the public service general control, the public property general control, the ministerial inspectorates, and the Higher Committee of the financial and administrative control.
The latter body performs a coordinating role for the other control committees. The Audit Court, created in 1959, performs ex post control and is very similar to its French counterpart, even though some elements are based on the English model. It is certified to control the state of political party finances. Another reform is currently under way that will make the budget more results orientated and will introduce accruals based accounting.

Regional development is a strategic choice even if little progress has so far been made. A development boost is anticipated in 2004 with the aim of strengthening local structures and at the same time improving efficiency. The Regional Development Programme is considered an instrument for strengthening local development through the consolidation of infrastructures, the creation of employment and the improvement of living conditions. Financial decentralisation has been promoted through the creation of the Fund for Loans and Support for Local Authorities.

Budget reform in Morocco
One of the foundations of the Moroccan accounting system is provided by the Declaration of The Rights of Man of 1789, and its concept of equality, which translates as equality in terms of taxes. The financial organic law dates from 1998. There are various forms of control: preliminary, safeguard controls, external controls exercised by the IGF and the IGAT, and a control exercised on the local entities by the Regional Audit Courts, based on the French model. All financial administration is based on the French model. The accounting system is characterised by flow and not assets, and by control and not valuation. One of the essential issues is the reduction of the overly extended powers of the Ministry of Finance and the increase of the parliament’s informative capacity. The new approach to budget policy is based on the globalisation of credits, the consolidation of deconcentration and the fostering of dialogue between the state and local actors. The new approach in budget preparation is based on multi-year programming and on Integrated Expenditure Management (GID). A programme of tax simplification and harmonisation is also being prepared. It should culminate in the creation of the General Tax Code.

Budget Reform in Serbia-Montenegro
At the end of the 90s, the situation in Serbia was characterised by unreliability and poor transparency in the accounts system. More than 40%
of revenues came through “special” measures brought into being for specific purposes at the government’s discretion, and not subject to any controls. A clear and comprehensive reform of the system was necessary to change the situation, and in the 2002 the new budget legislation was duly passed. The national budget comprises the budgets of the central government, the regions and the public bodies. There is a single system of accounting and classification of entries, and a system allowing communication between the various levels of budget was created. The biggest innovation was the creation of the Treasury. It unified public revenue collection in a single Treasury account, abolishing all other forms of collection. All budget transactions must now be recorded in the Treasury master book.

The Treasury is also responsible for financial planning and authorisation for acquisitions. Financial control is delegated to each ministry’s service and the internal inspection service of the Ministry of Finance. The reform is recent and still in progress. The successive part should focus on the strengthening of the local authorities’ financial autonomy.

**Budget reform in Macedonia**

Macedonia is a young republic with a diverse range of problems. It is bringing its legislation into line with Europe with the eventual objective of association with Europe. The most serious problems involve corruption, incomplete decentralisation and economic frailty. The financial actors are the Ministry of Finance, the Sobranie and the State Audit Office (SAO). Macedonia’s reform processes have been supported by USAID from the UK Department for International Development and by the World Bank. The budget reform aspires to the standards established by the OECD, by the EU in the Association Treaty and Pact for Stability and Growth, by the IASC, INTOSAI and EUROSAI. The IASC standards have been in force since 1998. The State Audit Office (SAO) is the supreme external control institution. However the SAO does not have total independence in exercising this role due to staffing levels. The approach to budget is still top-down, links between the various levels of budget are still insufficient, and corruption is still too widespread. In 2003 the government launched a strategy to combat endemic corruption in the system.

**Elaboration, implementation and control of the budget in Turkey**

The current public budget system was developed from the 1927 version, and is based on the French model. It concentrates on strict control of the spending phase.
The Ministry of Finance is the main actor in the elaboration phase. The responsibilities of the State Planning Organisation, created in 1971, includes the identification of macroeconomic goals. The Treasury absorbs 50% of the central budget for the payment of interest and for transfers. Deputies cannot introduce modifications during the voting phase. There is an *ex ante* and an *ex post* control. The Revision and final reports are entrusted to the Ministry of Finance. The system is a mixture of cash and accruals based accounting. *Ex ante* control is exercised by the Ministry of Finance and the expenditure agencies. External controls are exercised by the Audit Court, which performs judicial and certifying controls. 2005 will herald the new law on resources management and control. The Audit Court’s control will be extended to bodies that were previously beyond its influence; this will pose a serious problem regarding the means at its disposal. The reform of the accounting system has been prompted both by internal and external pressures. In the latter case these came from the IMF, the World Bank and the European Union, following the 2001 economic crisis. Internally, the cue for change came from civil society, public officials and from entrepreneurs. The economic restructuring goals set out in the April 2001 economic reform programme were successfully realised in 2002. The 2003 budget reform law ought to be operational from 2005. This reform calls for, among other things, the introduction of a multi-year programme.
Comparative Study of public management reforms and lesson drawing
Introduction

How can policy-makers draw on current experience in other countries to improve national policies in public management? In addressing the question we assume that policy intentions (goals in improving public management) are clearly determined, and the subject of the lesson is a programme that specifies the particular means that the government adopts to address policy intentions. It is also assumed that the context does matter, and the actual functioning and effectiveness of programmes depends on the context: programmes are not perfectly fungible, but they are context-related.

1) A ten-steps model for learning from abroad

A prescriptive model - or at least heuristics - for lesson-drawing has been outlined by Rose (2001). It is based on a list of steps, since “as in medical diagnosis, lesson-drawing procedures can be simplified in a check list of necessary steps”. Ten steps have been identified; they are reported and briefly outlined.

   Step 1: diagnosing your problem. In the words of Rose, “[t]here is no point in looking abroad for a remedy if you don’t know what the problem is at home”. The first step addresses the issue of defining what the problem is, in order to identify what to look for. Not all problems require to look abroad for solutions: this initial step is also intended to define whether lesson-drawing from abroad is the way to be taken.

   Step 2: deciding where to look for lessons. The decision about where to look for lessons does not happen in a vacuum, nor is it determined only by strictly technical reasons. There are a number of factors concretely affecting

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the decision about where to look at: cultural proximity (which for example contributes to explaining the intense traffic of ideas in public management among Anglo-Saxon countries), ideological compatibility (which may explain enhanced interchange of programmes among countries ruled by ideologically similar coalitions), availability of evidence (it may be argued that one of the reasons why Anglo-Saxon countries have seen their public management practices copied so intensely over the last two decades lies in the world-wide diffusion of the English language), interdependence (which pushes national policy-makers to pay attention to public programmes carried on by other countries but affecting their own: though this process may be triggered by reasons of self-defence, it becomes a source of learning and thus, at least potentially, of lesson-drawing).

Step 3: investigating how a programme works there. On-the-field investigation, and especially systematic interviewing of stakeholders, is a key requirement to achieve a thorough understanding of the functioning of the programme of reform. In the words of Rose: “Paper with laws, organization chart, budgets and quantitative indicators are necessary but not sufficient. To understand how a programme works in another country it is necessary to go there in order to learn what printed documents leave out”.

Step 4: abstracting a cause-and-effect model for export. A sort of “reverse engineering” approach is required, in order to understand the key variables explaining the functioning of the system that is to be copied, and its likely effects. Parsimony is a golden rule in this respect: the less the number of variables identified for explaining the functioning of the system, the more the model is likely to be usable.

Step 5: designing a lesson. Programmes have to be designed: they are a matter of art, a product of craftsmanship. It is only craftsmanship that enables the adaptation of the abstract cause-and-effect model to the circumstances of the importing nation. The execution of step 5 relies on the previous step (the understanding of the cause-and-effect relations), but it is clearly distinguished from it.

Step 6: deciding whether to import. Any lesson to be imported must pass a double check: it must be both feasible and desirable. A lesson may be judged to be feasible, i.e. capable of producing at home the same results that could be observed abroad, but this does not entail it will be actually adopted. It is crucial that key decision-makers, elected officials as well as top tenured officials, assess it to be desirable, in the light of their own views of how the public sector ought or ought not to function.
Step 7: dealing with resource requirements and constraints. Desirability and technical feasibility are not enough: implementing a public management reform requires also specific resources. Moreover, there may be contingent constraints that hamper the transfer of a given programme. These issues have to be dealt with at the very beginning, before moving on with the implementation of the lesson.

Step 8: handling the problem of context. This step, which partly overlaps with step 5, is about making the reform to be imported fit the politico-administrative and managerial context of the recipient country. The point is discussed more widely in the remainder of the paragraph.

Step 9: bounding speculation through prospective evaluation. An evaluation of the programme designed for import, conducted before the programme is implemented (so-called ex ante evaluation) is necessary, in order for decision-makers to assess the impact of the import of the programme. The point is that “[a]ny prescription for action is necessarily speculative since it is about the future, and evidence is about the past”. Grounding an evaluation of the future impact of the programme in one country on the basis of the assessment of its impact in another country is a way of bounding speculation about it.

Step 10: using foreign countries as positive or negative symbols. Consensus about the programme has to be built, if it is to be implemented. Actors in the recipient country need to be convinced that implementing the programme is worth. In this respect, a common way of “marketing” a lesson drawn from abroad is to use the common perception that people in one country have about a foreign country. In some fields, countries are perceived as superior, in absolute terms or at least in relative ones. For example, postal services in the UK are perceived as excellent in general terms, even beyond their intrinsic merits in regard to a specific kind of service; in this respect, marketing an innovation borrowed from a country perceived to be superior is much easier than importing innovations from other countries, independently of their intrinsic virtues. The opposite is also true: opponents of an innovation may find it useful to relate it to the exporting country’s alleged defects, more than judging it for its intrinsic qualities and weaknesses.

This protocol of analysis – criticisable as it may be – has the merit of proposing a concrete procedure. At the same time, it does not go in depth
into the issue of how to conduct an analysis of the context and its influence on public management reforms.

A framework for the analysis of the context and its effects on public management reforms is succinctly outlined in the remainder of the section.

2) Analysing the context of foreign countries

A key point, cross-cutting all the steps of Rose’s model, and especially significant for conducting steps 2-5 and step 8, regards how to analyse the context of a foreign country in order to understand how it affects the effectiveness of public management systems and practices, and to be able to predict the likely influence of the recipient country’s context on the functioning of the imported programme of reform.

The problem is hugely complex and multifaceted. Fortunately, there is a growing literature on the topic, especially rich during the last two decades. On this basis, it is possible to a) draw some broad distinctions and propose a classification of different levels of “context” in which a public entity operates, and b) outline, as a first approximation model, some lines of influence of each level of the context on the functioning of public management systems, like, e.g., a budgeting model, or a system for rewarding personnel of public sector organisations. In this approach, the context can be classified into four levels:

1) The policy sector;
2) Institutional rules and organisational routines in the area of public management;
3) The politico-administrative regime;
4) The cultural context.

They are subsequently examined.

3) The policy sector

Public entities operate in different policy sectors, and at different levels of government. A distinction is between general-purpose organisations, usually representative of a territorial community, like a local authority or the central government, and specific-purpose organisations, like a health organisation unit, a school, or a police department.
Especially for specific-purpose organisations, the most evident dimension of context is the policy sector in which they operate. The transfer of a practice or a programme from the policy sector in which it was originally conceived and implemented to another policy field requires the careful consideration of the features of the sector, like:

- the standardisability of outputs,
- the prevalence of the qualitative dimension (like in health services) or the quantitative one (like, e.g., in procedural controls for reducing tax evasion),
- the “easiness” in correlating the outputs to the outcomes, i.e. the impacts of the outputs delivered on the needs of recipients, like e.g. students of a training-for-job programme actually getting a job, or a patient actually recovering from a disease as an effect of the treatment (the easiness in correlating outputs and outcomes is affected in a significant way also by the time lag between the appearance of the output and the appearance of the outcome).

Public policy studies, in the different fields, provide a guidance about exportability of a given practice across policy sectors.

On a different basis of analysis, a major theoretical contribution is provided by Wilson (1989), who employs theoretical categories as well as illustrative examples to argue that the operating conditions of bureaus vary radically within the government. Wilson suggests that the effects of any given set of administrative systems differ according to the bureau’s operating conditions. These conditions are primarily identified in terms of the “observability” of outputs and outcomes, where an output is defined as a performed task, and an outcome as the impact of programmatic actions on targeted problems.

The term production organisation refers to a case where both outputs and outcomes are observable. The term coping organisations refers to a case where neither are observable (an example being a school, at least as regards the teaching activity, where supervisors cannot observe neither the outputs, nor the outcomes). In a procedural organisation outputs are observable but outcomes are not (a regulatory authority is an example: interventions to regulate an economic sector are observable, but its outcomes in general are

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1 We follow especially barzelay’s (2001) treatment of the work of Wilson.
not); the opposite is a *craft organisation* (an example are police detective corps: their results in terms of solving a murder may in general be monitored, but the way they perform a task cannot).

A first, broad criterion is that exporting practices from one typology of organisation to another is “more difficult” than between organisations that, though in different policy sectors, belong to the same typology and are set in the same operating conditions.

4) Institutional rules and organisational routines in the areas of public management

We can introduce the notion of public management policy as “the sum of institutional rules and organizational routines [at the country level] that guide, constrain and motivate the public service as a whole” (Barzelay, 2001, p. 14). The key point here is that individual public sector organisations operate within the frame of a public management policy, and the practice they may be willing to import have to operate within the context of such institutional rules and organisational routines. This is a second key dimension of the context to be taken into account in comparative analyses.

A public management policy must be conceived as something dynamic, that may always change, incrementally or radically – but at the same time is has a consistency over time. National level import of a practice or programme in public management (for example, a performance-related pay system employed by another country) is in itself a way of modifying the public management policy (rules and routines in the area of labour relations), but the overall set of institutional rules and organisational routines represent a dimension of the context in which the individual programme has to operate, and affects its functioning.

5) The politico-administrative context

In a major comparative study, Pollitt and Bouckaert (2004, p. 63) note that “Features of the existing politico-administrative regime (of a given country) are likely to exert a significant influence over both the choice of reform to be adopted and the feasibility of implementing certain types of reform” and “whatever type of reform may be desired, not every country has an equal capacity to *implement* new arrangements in a coherent, broad-scope way”.

9
Pollitt and Bouckaert identify and discuss five main features of the politico-administrative regime of a country. It is to be intended as the broad context, shaped by history, of a country, within which public management reforms at all levels take place. The authors identify five main features of the politico-administrative regime of a country. They are outlined in Table 1, in which also some lines of influence of each feature on the process of implementing a public management reform (the feasibility of a certain type of reform, referred to in the quotation above) are succinctly recalled. Each line of influence, as outlined in Table 1, is to be interpreted “all other things being equal”; clearly, the overall context of the country is provided by the combination, and interactions, of all features.
Table 1: Key features of a politico-administrative system and lines of influence on the reform process (elaborated from Pollitt and Bouckaert, 2004)

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<th>Feature</th>
<th>Description</th>
<th>Influence on:</th>
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<tbody>
<tr>
<td>1. The basic structure of the State</td>
<td>There are two basic dimensions. The first refers to the degree of <em>vertical</em> dispersion of authority - that is, how far authority is shared between different levels of government (from the “central” state to local authorities). In a unitary state, there is no constitutionally entrenched division of state power; central state retains ultimate sovereignty, even if particular authority is delegated to sub-national tiers of government (examples are New Zealand, or the United Kingdom). At the opposite, in a federal state there is a constitutionally entrenched division of state power (examples being Germany, or the United States of America). Within the category of unitary states, some are extensively decentralised: even if there is no constitutionally entrenched division of state power, the degree of powers delegated to intermediary or local tiers of government is high (examples being Finland, or Italy). The second dimension concerns the degree of <em>horizontal</em> co-ordination at central government level, that is how far central executives are able to “get their acts together” by ensuring that all ministries pull together in the same direction. This dimension ranges from the pole of “highly co-ordinated” (an example being the UK, where the Treasury plays a strong co-ordination role) to “highly fragmented” (an example being the USA, where no Department is really able to perform such co-ordinating role)</td>
<td>Influence on:</td>
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<td></td>
<td></td>
<td>- Breadth in scope: reforms in highly decentralised states (whether they be unitary or federal) are likely to be less broad in scope; the same effect has a low degree of horizontal co-ordination</td>
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<tr>
<td></td>
<td></td>
<td>- Uniformity (the way the new management systems are implemented): reforms in highly decentralised states are likely to be less uniform; the same effect has a low degree of horizontal co-ordination</td>
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<td></td>
<td></td>
<td>- Intensity (the pace with which the reform is implemented): unitary states and/or highly co-ordinated are likely to progress with a faster pace of reform</td>
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<td></td>
<td></td>
<td>- Width (the number of policy sectors affected by a reform): unitary and/or highly co-ordinated states seem to have an enhanced capacity of implementing “government-wide” reforms</td>
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<tr>
<td>Feature</td>
<td>Description</td>
<td>Influence on the reform process</td>
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<tr>
<td>2. The nature of the executive government</td>
<td>Working habits and conventions of the central government are affected by the typology of government. In general single-party executives (where one party holds more than 50 per cent of the seats in a legislature) or minimal winning coalition (where two or more parties hold more than 50 per cent of the legislative seats) tend to have a majoritarian/adversarial style of governing, while minority cabinets (where the party or parties composing the executive hold less than 50 per cent of the legislative seats) and grand coalitions (where additional parties are included in the coalition beyond the number required for a minimal-winning coalition) tend to adopt more consultative and consensus-oriented/less adversarial habits and conventions in governing</td>
<td>- majoritarian executive governments tend to introduce more radical (i.e.: with a higher degree of change from the previous arrangements), more uniform, and wider reforms</td>
</tr>
<tr>
<td>3. Minister/senior public servants relations</td>
<td>There is a wide variety of relationships between executive politicians and senior public servants, affected, <em>inter alia</em>, by the way their careers are integrated or at the opposite clearly separated, and by the degree of politicisation of top posts.</td>
<td>Highly integrated careers and politicised top level posts are likely to be conducive to a more radical style of implementation of the reform, and to sudden reversals of the implementation process when a new government takes office – extreme “spoils systems” are likely to produce a fracture between political appointees at the top and the “rank and file” (intermediate and low levels) in the public service</td>
</tr>
</tbody>
</table>
Table 3: Key features of a politico-administrative system and lines of influence on the reform process (continued)

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<tr>
<th>Feature</th>
<th>Description</th>
<th>Influence on the reform process</th>
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<tr>
<td>4. The philosophy and culture of governance</td>
<td>A major distinction is between the Rechtsstaat culture of governance, dominant, <em>inter alia</em>, among continental Europe countries (examples: France and Germany), and the Anglo-Saxon public interest culture of governance, dominant in Anglo-Saxon countries. From the Rechtsstaat perspective, the State is a central integrating force within society, and its focal concerns are with the preparation, promulgation and enforcement of laws. It follows from this that most civil servants will be trained in law and, indeed, that a large and separate body of specifically administrative law will have been created. In such a culture the instinctive bureaucratic stance will be one of rule-following and precedent, and interactions between public servants and citizens will be set in this context of correctness and legal control. By contrast, the public interest model accords the state a less extensive or dominant role within society. The “government” (a phrase more frequently used than “the state”) is regarded as something of a necessary evil whose powers are to be no more than are absolutely necessary. The law is of course an essential component of the governance, but its particular perspectives and procedures are not as dominant as within the Rechtsstaat model. All citizens are under the law, but law is usually in the background rather than in the foreground, and many senior civil servants have no specific training in law (and are often generalists).</td>
<td>Rechtsstaat systems tend to be “stickier” and slower to reform than public interest systems, at least because management change would always require changes in the law and, culturally, because senior civil servants who are trained in administrative law may find it more difficult than generalists to shift to a “managerial” and “performance-oriented” perspective.</td>
</tr>
</tbody>
</table>
Table 4: Key features of a politico-administrative system and lines of influence on the reform process (continued)

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<th>Feature</th>
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</table>
| 5. Sources of policy advice | The reference is to the key sources of advice to ministers on issues of public management reform. In principle, political executives could take management advice from a wide range of sources – from their own political parties, mandarins, management consultants, academic specialists, business corporations, or political or policy think tanks. The wider the range of customary sources of policy advice, the more likely it is that new ideas – especially those from outside the public sector – will reach ministers’ ears in persuasive and influential forms. Beyond this, the source of a particular reform idea may influence its perceived legitimacy and “sense of ownership”: rank-and-file civil servants may be more suspicious of innovations that are believed to come from one particular political party or from culturally-too-distant sources. For example, management practices imported from big business (e.g.: innovations at Motorola or Rank Xerox) may be accorded greater legitimacy in a pro-business culture such as prevails in the USA, than in a strong, proud, state-centred culture such as has existed for some time in france. | Influence on  
- Inclination to experimenting novel solutions vs. continuity in management ideas  
- Sense of ownership by civil servants in charge of implementing the reform |
6) The cultural context

Hood (1998) has elaborated a highly sophisticated theory, based on an anthropological model, for explaining the prevalence, in specific historical periods and latitudes of one or the other set of consistent organisational doctrines in public management. According to this approach, the cultural underpinning of currently fashionable organisational doctrines in public management, like the New Public Management (NPM), is the prevalence of a “Low grid_Low group” set of values, corresponding to situations in which values of individual freedom of choice, centrality of individuals’ utility, etc. assume a central position.

The key point is that such cultural paradigm is only one out of four possible paradigms that, variously combined, tend to stand out the others, or at the opposite disappear, in different periods and countries over the history. The prevailing doctrines tend to be shaped by the dominant paradigm, which in a specific country and in a given period has a huge influence on the “acceptability” and concrete implementation of public management doctrines. In this perspective, the dominant cultural paradigm is the broad context in which public management reform, and within it lesson-drawing, take place.

7) Concluding remarks

There are other limitations, at least in our opinion, in the approach of Rose. First, Rose’s model can be ascribed to the category of the “rational” models, in the sense that it proposes a procedure that, in the pursuit of optimality, leads to systematically enhancing the amount of information required. There is a concrete risk in this procedure that actual individual and organisational constraints to the capacity of elaborating information (Simon, 1947) are systematically under-estimated.

Second, it is important to define the actual content of what is transferred. In general terms, three quite distinct types of transfer can be identified:

- direct transposition of the programme developed in another country;
- transfer of a significantly modified version of the programme;
- inspiration, i.e. the transfer of the underlying logic of a programme, leaving out the technical content of the management system under consideration.

Rose’s model is applicable in its complete version only in the first case. In the second case, different steps may require a different attention and resources allocated, while in the third case the model can be interpreted more as a logical framework than as an actual protocol of organisational design.
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Campbell, C. *Evaluating the introduction of the MTEF in Ghana as an instance of public management reform*, unpublished material


BELGIUM
LE SYSTEME BUDGETAIRE EN BELGIQUE

di Valentina Carnevale

1) Le Cadre Budgétaire Général en Belgique

En Belgique, le budget est annuel et revêt une forme précise et obligatoire, conforme aux principes budgétaires: équilibre, annalité, universalité, spécialité, publicité.

En Belgique, l'année budgétaire correspond actuellement à l'année civile: elle commence le 1er janvier et se termine le 31 décembre; le nouveau cadre budgétaire (2002-2007) est explicité dans l'accord du Gouvernement fédéral par trois normes:

- la constitution progressive d'excédents budgétaires, dans le cadre de la méthodologie du SEC, Système Européen des Comptes, (rejoindre l'équilibre en 2004 et en 2005 pour arriver à 0,3% du PIB en 2007 à croissance tendancielle, au fin de ramener le ratio de la dette en dessous de 90% du PIB d'ici la fin 2007);
- le maintien de l'équilibre financier dans la sécurité sociale;
- la diminution constante de la proportion des recettes fiscales et parafiscales par rapport au PIB.

Dans le cadre de l'État belge fédéral, les différentes entités se portent garanties de la réalisation d'un résultat déterminé en matière de solde de financement. Elles disposent d'une large autonomie en matière de politique des recettes et des dépenses.

Dans un État fédéral, la politique budgétaire des différentes entités doit être coordonnée, de sorte que chacune contribue à la réalisation de l'objectif défini au niveau de l'ensemble des pouvoirs publics. L'expérience belge prouve qu'un système de conventions claires quant au résultat à obtenir, couplé à la responsabilité des différents sous-secteurs, garantit le respect de l'objectif. La collaboration entre les différents niveaux des pouvoirs publics en vue de réaliser les objectifs fixés, est matérialisée par des conventions entre le pouvoir fédéral, les communautés et les régions. Par la Convention du 15 décembre 2000,

2 Convention du 15 décembre 2000 entre l’État fédéral, la Communauté flamande, la Communauté française, la Communauté germanophone, la Région wallonne et la Région de Bruxelles-Capitale portant les objectifs budgétaires pour la période 2001-2005.
les communautés et les régions se sont engagées pour la période 2001-2005 à respecter les normes proposées par la Section Besoins de financement des pouvoirs publics du Conseil supérieur des Finances\(^3\). En termes SEC, il s'agit de réaliser une capacité de financement de 0,1% du PIB\(^4\) et elle a été complétée à plusieurs reprises. Ainsi, la Convention du 21 mars 2002 a prévu entre autres, une transformation progressive des normes utilisées, basées sur des concepts budgétaires, en une norme en termes SEC. Une convention conclue par le Comité de concertation du 22 septembre 2003 a définitivement réglé en termes concrets ce passage à des normes en termes SEC. Lors de cette même réunion, le Comité de concertation a également cherché des solutions à quelques dossiers budgétaires en suspens, tel que la fixation de la part des communautés et des régions dans le produit de la déclaration libératoire unique\(^5\).

Compte tenu des dispositions de cette convention et de l’actualisation des paramètres relatifs au calcul des impôts à transférer aux entités fédérées, réalisée lors de la préparation du budget 2004, le pouvoir fédéral est parti de l’hypothèse d’un excédent de 0,3% du PIB pour les communautés et les régions en 2004.

En attendant la conclusion d’une nouvelle convention pour la période 2005-2007, la norme définie par la Section Besoins de financement des pouvoirs publics du Conseil supérieur des Finances, à la base de la convention de décembre 2000, a été reprise. Lors de la confection de son budget 2004, le gouvernement fédéral a ajusté cette norme afin de tenir compte de l’augmentation des moyens à transférer aux communautés et aux régions (environ 0,05% du PIB), suite à l’application des paramètres les plus récents.

En tant que pouvoir de tutelle des administrations locales, les régions se sont engagées à inciter ces administrations à réaliser les objectifs du programme de stabilité 2001-2005. Pour ces administrations, la convention a prévu, pour la période 2001-2003, une capacité de financement de 0,2% du PIB. Pour la période suivante (2004-2005), l’objectif fixé est de réaliser un excédent de 0,1% du PIB. Afin que leur politique budgétaire s’inscrive dans les programmes de stabilité nationaux, les communautés et les régions établissent chaque année un programme pluriannuel de stabilité interne évolutif, dont la durée correspond au moins à celle du programme de stabilité de la Belgique\(^6\). Par ces programmes de stabilité internes, les communautés et les régions montrent comment elles rempliront, pour chaque année budgétaire concernée, les objectifs

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\(^3\) La Section Besoins de financement partie du Conseil supérieur des Finances, est un organe consultatif qui formule des recommandations relatives à la politique budgétaire des pouvoirs publics et plus particulièrement des communautés et des régions, la Section prend comme hypothèse que les différentes communautés et régions atteindront l’équilibre budgétaire en 2010.

\(^4\) Cela correspondait, pour l’ensemble de la période, à un excédent d’environ 0,1% du PIB en termes SEC.

\(^5\) Amnistie fiscale en Belgique: la loi DLU - déclaration libératoire unique - est votée à la Chambre (22/12/2003).

\(^6\) Programme de stabilité en Belgique: Bulletin UE 1/2 - 2003
précités. Ces plans pluriannuels sont évalués chaque année par la Section Besoins de financement du Conseil Supérieur des Finances (CSF).

Pour la période 2004-2007, le gouvernement continue à utiliser comme fil rouge de sa politique budgétaire l'objectif prévu dans le pacte de stabilité et de croissance.

Afin de diminuer suffisamment vite le taux d'endettement, il est nécessaire de sauvegarder l'équilibre et, à moyen terme, de développer des excédents. Cette diminution du taux d'endettement est une condition importante de l’absorption. Il n'est pas évident de réduire le taux d'endettement dans une période de croissance économique décevante.

La politique budgétaire doit non seulement offrir une réponse aux problèmes à court terme, mais également relever les défis inévitables de l'avenir, comme par exemple l'absorption du coût budgétaire du vieillissement. En effet, si ce problème ne sera pas anticipé, selon les prévisions du gouvernement fédéral, un coût important sera transféré aux générations futures et une lourde hypothèque pèserait sur la politique budgétaire du futur.

2) Objectifs Complémentaires de la Politique Budgétaire: l’emploi

En 2003, l’emploi intérieur s’est baissé pour la deuxième année consécutive.

En 2004, cette tendance prendrait fin et l'emploi augmente d'environ 16,500 unités et se rapproche ainsi de nouveau du niveau atteint en 2001. Le taux d'emploi (le rapport entre la population réellement active et la population en âge de travailler) est augmenté à nouveau légèrement en 2004 pour atteindre 61,6%.

Une politique budgétaire responsable ne se satisfait pas de la seule réalisation d'un solde déterminé ou de la diminution de la dette. Le budget reste un instrument important pour la mise en œuvre de diverses priorités politiques.

À cet effet, dans un cadre budgétaire pluriannuel, des moyens importants ont été prévus pour une réduction supplémentaire des charges et d'autres mesures de promotion de l'emploi.

Le pacte européen de stabilité et les finances publiques saines sont essentielles pour créer des conditions plus favorables à une stabilité des prix et à une croissance durable, donc pour favoriser l'emploi.

D'autre part, il convient de consentir des efforts dans ce cadre strict en vue d'affecter au mieux les moyens disponibles pour soutenir l'économie. Ainsi, les meilleurs résultats en termes d'emploi pourront être engrangés lorsque le redressement économique gagnera en puissance.

Malgré l'impact négatif de l'environnement économique, le Gouvernement est parvenu à maintenir un équilibre budgétaire. Dans ce cadre d’étroitesse, il était difficile de réserver les marges budgétaires nécessaires à de nouvelles initiatives, des initiatives qui doivent favoriser la croissance de l'économie et plus particulièrement la création d'emplois.
Pour être une réussite, une politique de l'emploi doit être soutenue par les dirigeants d'entreprises et les syndicats. L'efficacité dans ce domaine requiert le concours des gouvernements des communautés et des régions, du gouvernement fédéral et des partenaires sociaux. La Conférence sur l'emploi a mis sur pied cette collaboration et des résultats ont été enregistrés et le budget 2004 constitue la mise en œuvre intégrale des résultats de cette Conférence du 19 septembre 2003 sur l'emploi.

L'impact budgétaire lié à de nouvelles initiatives traduites dans le budget fédéral 2004 s'élève en chiffres bruts à 533 millions d'euros. Ce montant est constitué de 400 millions d’euros en réductions de charges, de 91 millions d’euros en investissements en chèques services et de 42 millions d’euros pour une mesure fiscale destinée au travail en équipes.

On s'ajoutent les efforts des régions et des communautés en vue de proposer un accompagnement adéquat à un nombre plus important de chômeurs.

Une telle politique, où les éléments se renforcent mutuellement, devrait permettre à environ 60.000 personnes supplémentaires de retrouver un emploi d'ici la fin de la législature.

Afin de permettre également à un nombre accru de travailleurs de conserver leur place sur le marché de l'emploi, est nécessaire engranger et actualiser les connaissances et les compétences.

Comme il a été dit ci-dessus, la réduction supplémentaire des charges est très ciblée. Son affectation étant intervenue en étroite concertation avec les partenaires sociaux, un résultat équilibré a été atteint, ce qui ne peut qu'accroître les chances de réussite.

Les lignes directrices de cette politique sont les suivantes:

- Il est essentiel qu'un effort supplémentaire soit consenti en vue de favoriser l'emploi de personnes moins scolarisées ou moins expérimentées et qui éprouvent souvent des difficultés sur le marché de l'emploi. Voilà pourquoi il a été décidé de prévoir une réduction supplémentaire sur les cotisations sociales patronales pour les travailleurs salariés dont le salaire mensuel brut est inférieur à 1.956,6 euros. La réduction de cotisation patronale existante pour ce groupe cible est renforcée et, dans le même temps, le groupe cible est étendu (la limite "bas salaire" est majorée d'environ 219 euros).

- Les travailleurs salariés qui, en raison de leur expérience, de leur formation ou de leurs connaissances, sont gratifiés d'un salaire plutôt élevé, constituent un nouveau groupe cible de la politique des réductions de charges. Dans la réglementation actuelle en matière de cotisation, le coût salarial indirect est très lourd pour ce groupe.

- Le coût salarial de tous les travailleurs salariés continuera d'être réduit dès lors que le montant de base de la réduction structurelle des charges continuera d'être majoré pour passer de 381,33 euros par trimestre à 400 euros par trimestre (budget de 146,5 millions d'euros).

- La législation actuelle prévoit que la réduction structurelle des charges n'est accordée qu’aux travailleurs salariés qui, au cours d'un trimestre,
ont travaillé au moins 27,5% d'un horaire complet. Cette condition stricte est assouplie, de sorte que tout travailleur salarié qui travaille au moins à mi-temps aie toujours droit, à partir du 1er avril 2004, à la réduction structurelle de cotisation et à d'éventuelles réductions pour «groupe cible», même si ses prestations au cours du trimestre sont inférieures à 27,5% des prestations normales (budget de 28,5 millions d’euros).

- Enfin, un montant de 50 millions d’euros provenant de l’enveloppe de 800 millions d'euros (25 millions en 2004) pour les réductions de charges est mis à disposition pour une approche très novatrice des restructurations d'entreprises. Les restructurations accompagnées de nombreux licenciements constituent chaque fois un drame pour les personnes concernées et parfois même pour l'emploi de toute la région dès lors qu'elles portent gravement préjudice aux sous-traitants.

3) Les Prospectives de l’économie de la Belgique

3.1. Prospectives à court terme

Les prospectives à court terme de l’économie belge s’inscrivent dans la moyenne européenne, et plus particulièrement de la zone Euro.

La demande des ménages est soutenue par l’amélioration de leur pouvoir d’achat qui résulte notamment des réductions de l’impôt sur les personnes physiques.

L’amélioration des prospectives d’emploi doit progressivement se dessiner pendant le 2004. La progression des salaires doit rester modérée, conformément à l’accord interprofessionnel 2003-2004. L’orientation de la majeure partie de nos exportations vers la zone euro et l’appréciation de la monnaie unique font que l’impact d’une reprise du commerce mondial sur les exportations belges ne se fera que très progressivement ressentir.

Les fluctuations des prix à la consommation autour de cette tendance ont reflété essentiellement l’évolution des prix du pétrole et des fruits et légumes.

3.2. Prospectives à moyenne terme


La projection de moyen terme pour la Belgique est cohérente avec les hypothèses soutenues par la Commission (hypothèse réalisées au printemps 2003). En particulier, les résultats obtenus sont une résorption de l’écart de production en fin de période. Le profil de la reprise qui en résulte est positivement accentué en Belgique par les conséquences de la réforme fiscale et par le cycle des investissements des pouvoirs locaux (pour les années 2005-2006).
3.3. Les dépenses des finances publique à long terme

Par l’approbation de la Loi du 5 septembre 2001 qui prévoit une réduction continue de la dette publique et la création d'un fonds de vieillissement, a été instaurée une procédure qui assure, lors de la définition de la politique budgétaire, une attention suffisante à la soutenabilité à long terme des finances publiques. Le gouvernement est en effet tenu d’établir chaque année une Note sur le vieillissement. Dans cette Note, il doit expliquer sa politique en matière de vieillissement de la population. La loi précitée prévoit trois étapes dans l'élaboration de ladite Note sur le vieillissement:

- la première étape est constituée par le rapport annuel du Comité d'étude sur le vieillissement, qui examine notamment les effets budgétaires et sociaux du vieillissement;
- dans une deuxième phase, la section 'Besoins de financement' du Conseil supérieur des Finances tient compte de ce rapport lors de la formulation de ses recommandations en matière de politique budgétaire;
- enfin, dans une troisième étape, le Gouvernement expose sa politique relative aux effets du vieillissement de la population. Cette note contient également un aperçu des versements au Fonds de vieillissement (et reprendra plus tard les versements effectués par le Fonds).

4) La Politique Budgétaire des Communautés et des Régions

4.1. La Communauté française

Il était prévu que le budget des recettes soit alimenté par un transfert en provenance du Fonds d'Egalisation; ce transfert, qui a été réalisé intégralement, est considéré comme une utilisation de réserves influençant le solde de financement.

Le taux d'utilisation des crédits de dépenses est augmenté par rapport au taux inhabituellement bas de 2002, mais reste relativement bas en rapport aux années précédentes (sous-utilisation de 1,6%). Deux facteurs ont contribué à l'amélioration du taux d'utilisation du budget en 2003:

1- la mise en œuvre d'un programme d'urgence en matière de bâtiments scolaires et une augmentation des ordonnancements sur les reports (de crédits) des années budgétaires antérieures.

2- le fait que les crédits prévus dans le budget pour la réduction de la dette indirecte ne sont pas utilisés (9,2 millions d'euros) parce que ces remboursements sont systématiquement refinancés et se font donc au moyen d'opérations de trésorerie, ne joue qu'un rôle limité.
4.2. Recommandations pour les communautés et les régions pour la période 2005-2010


Les principes qui sont à la base de ces recommandations s’alignent au Pacte de stabilité et de croissance (PSC), qui impose aux membres de l’UEM une situation budgétaire proche à l’équilibre. Chaque Entité (même l’ensemble des communautés et des régions) se voit donc assigner une trajectoire normative aboutissant en 2010 à l’équilibre budgétaire et fixée conformément à la méthodologie de la Section Besoin.

4.3. Le Service général du Budget, de la Comptabilité et du Contrôle des dépenses

En ce qui concerne les recettes (budget des Voies et Moyens), le Service de Budget se base notamment:
- sur les dispositions de la loi spéciale de financement des Communautés et Régions et des textes légaux et réglementaires qui s’ensuivent;
- sur les prévisions qui lui sont communiquées par les administrations;
- sur les éventuels crédits budgétaires non utilisés du budget de l’année précédente.

En ce qui concerne les dépenses (budget général des dépenses), le Ministère de la Communauté française est composé de plusieurs administrations chargées de missions spécifiques. Ce sont évidemment ces administrations qui mieux évaluent leurs besoins en matière de dépenses. Mais ces prévisions sont limitées à leur propre secteur, alors que le budget est commun à l’ensemble du ministère.

Le Service du Budget joue donc un rôle de centralisation et de coordination: après avoir recueilli toutes les informations et demandes, il dresse les projets de documents budgétaires. Ultérieurement, c’est encore lui qui préparera les feuillets d’ajustement.

4.4. Le contrôle de l'exécution du Budget

Le gouvernement et l’administration de la Communauté française sont autorisés à effectuer des recettes et des dépenses dans la limite des décrets et conformément aux principes budgétaires générales.

Il faut savoir qu’outre les dépenses du personnel et du fonctionnement dans le domaine de l’enseignement, les dépenses de la Communauté française peuvent être classées en deux grandes catégories: les marchés et les subventions.

Pour chaque dépense particulière, un dossier est élaboré par l'administration compétente qui prend les contacts nécessaires avec des tiers: fournisseurs (marchés) ou bénéficiaires (subventions). Ces dossiers seront, chaque fois que nécessaire, soumis à l'accord ou à l'avis des instances suivantes:
- l’Inspection des Finances (compétence d’avis),
- le Ministre du Budget (compétence d’accord),
- le Contrôle des engagements (compétence d’accord),
- la Cour des Comptes (compétence d’accord) qui surveille la gestion des deniers publics pour compte du pouvoir législatif.
# LES BUDGETS DES COMMUNAUTÉS ET DES RÉGIONS

## chiffres annuels 1998 - 2004

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(a) À l’exclusion des amortissements et les opérations de gestion sur la dette directe.
(b) Y compris les opérations sur les fonds propres et à l’exclusion des opérations de la section particulière.
(c) Transferts internes inclus.
5) La Région de Bruxelles Capitale

Cet étude se propose d’analyser la Région la plus petite de la Belgique, mais quelle ou il y a la plus part de difficultés en terme de gouvernance.

En effet, la Région de Bruxelles-Capitale est composée de 19 communes réparties sur une surface totale de 162 km² (plus ou moins 0,5 % du territoire belge). La Région compte approximativement 1 million d’habitants, dont 72% sont belges. La Région de Bruxelles-Capitale compte 9,3% de la population belge et génère 19,3% du produit national brut.

5.1. Les Autorités

La Région est dirigée par deux autorités: le Conseil régional (appelé également Parlement bruxellois) et le Gouvernement. Ce sont ces autorités qui ont pour mission de définir les politiques menées dans le cadre des compétences de la Région.

5.2. Les Compétences

Comme les Régions wallonne et flamande, la Région bruxelloise exerce des compétences qui lui sont propres. Ces compétences sont:

- l’aménagement du territoire (planification, urbanisme, rénovation urbaine, politique foncière, protection des monuments et des sites);
- l’environnement et la politique de l'eau;
- la conservation de la nature;
- le logement;
- l’économie (expansion économique, commerce extérieur,…);
- la politique de l’énergie;
- les pouvoirs subordonnés (provinces, communes, intercommunales);
- la politique de l’emploi;
- les travaux publics;
- le transport;
- les relations extérieures;
- la recherche scientifique.

S'y ajoutent les tâches que le législateur avait confiées à l'ancienne Agglomération de Bruxelles, c’est-à-dire:

- la lutte contre les incendies;
- l’aide médicale urgente;
- l’enlèvement et le traitement des immondices;
• les taxis.

La Région gère également des compétences héritées de l'ancienne Province de Brabant, notamment en matière d'organisation d'un réseau d'enseignement supérieur, secondaire technique et professionnel, spécial et de promotion sociale francophone. Pour mettre sa politique en œuvre, le Gouvernement régional dispose du Ministère de la Région de Bruxelles-Capitale ainsi que de divers organismes para-régionaux.

5.3. Les Organismes régionaux

Pour mettre sa politique en œuvre, le Gouvernement régional dispose de différents outils, et notamment de son administration, le Ministère de la Région de Bruxelles-Capitale. Mais en-dehors de son Administration, il arrive fréquemment que la Région de Bruxelles-Capitale confie des missions d'utilité publique à divers organismes para-régionaux, ainsi qu'à des Associations Sans But de Lucre (ASBL) d'intérêt régional.

Différents types d'organismes para-régionaux existent à Bruxelles:
• les OIP (Organismes d'Intérêt Public) de type A: leur gestion dépend directement de leur Ministre de tutelle (celui qui a dans ses compétences directes la matière traitée par l'OIP);
• les OIP de type B: leur Conseil d'Administration (ou tout autre organe de gestion) est sous la tutelle d'un ou plusieurs ministres compétent(s) dans leur domaine;
• les organismes para-régionaux de droit ou d'intérêt public, dans lesquels le Conseil d'Administration (ou tout autre organe de gestion) inclut des administrateurs désignés par le Gouvernement bruxellois;
• les ASBL d'intérêt régional (les Associations Sans But Lucratif).

5.4. Le Budget Régional

Le budget est "un acte législatif contenant le tableau des recettes et des dépenses prévues pour une période déterminée et constituant de ce chef, la règle à suivre par le pouvoir exécutif et par l'Administration qui dépend de celui-ci".

• Le budget de prévision: il est une estimation des recettes et des dépenses probables pour une période déterminée. Le Conseil régional bruxellois vote chaque année un budget initial, tant en recettes qu'en dépenses, pour la Région. Ces données étant évolutives, le Conseil peut également voter en cours d'année un ou deux ajustements budgétaires.
• Le budget d'autorisation: il s'oriente sur l'autorisation accordée par le Conseil régional bruxellois au gouvernement d'effectuer les dépenses qui y sont mentionnées et de procéder au recouvrement des recettes qui y sont définies.
Le budget législatif: ce budget revêt un caractère légal, mais il n'est pas pour autant une loi ordinaire. En effet, il n'est en principe pas une source de droit et n'est par nature valable que pour une année. Il est donc une loi d'un point de vue formel, mais pas matériel, puisqu'il est en fait un acte administratif sans contenu normatif prenant la forme d'une loi et naissant selon la même procédure qu'une loi.

Les projets de budget comportant les estimations de recettes et de dépenses établies par le gouvernement, sont donc déposés auprès du Conseil sous forme de projets d'ordonnance, qui doivent être approuvés par le Conseil et publiés au Moniteur belge.

Les estimations reprises dans ces budgets et les autorisations qu'ils accordent ne sont valables que pour une période bien déterminée c'est-à-dire l'année budgétaire considérée.

Le budget est plus qu'une simple estimation et autorisation est le programme d'action du gouvernement et constitue le reflet chiffré de la politique qu'un gouvernement entend mener. Le fait que le budget soit voté par le Conseil régional renforce encore cet aspect politique, puisque cela implique un vote de confiance vis-à-vis du gouvernement.

Le budget joue donc un rôle important dans la vie politique; toute activité des pouvoirs publics représente une dépense qui nécessite des recettes. Les dépenses et les recettes doivent être approuvées par le Parlement par le biais d'un budget. En adoptant le budget, le Parlement autorise, le Gouvernement à exiger et lever les impôts et à mener une politique déterminée grâce à ces moyens financiers.
Schématiquement, les recettes financières de la Région se ventilent comme ceci:

![Pie chart showing financial revenue distribution]

Et sont affectées aux postes suivants:

![Pie chart showing allocation to specific categories]
5.5. Bruxelles-Capitale: Objectifs Budgétaires 2004

La Région Bruxelles-Capitale s’est engagée à respecter les normes budgétaires et les objectifs qui ont fait l’objet d’un consensus au niveau fédéral dans le cadre du Pacte européen de Stabilité et de Croissance (PSC). A cet effet, la Région signe et respecte les accords de collaboration pluriannuels conclus entre l’Autorité fédérale et les entités fédérées.


Enfin, le Comité de concertation, en sa séance du 21 septembre 2003, a encore revu cet accord. Ces dernières modifications feront l’objet d’un nouvel accord de coopération non encore ratifié à ce jour.

Les implications de ce dernier accord sont multiples. Les conséquences ont été sur le déficit autorisée de la Région de Bruxelles-Capitale en 2003 et en 2004 (aucune modification prévue pour 2005, le déficit autorisé reste jusqu’à présent à 39,7 millions d’euros).

Avant cela, on rappelle qu’en 2002 a été demandé à la section «Besoins de financement des Pouvoirs publics» du Conseil Supérieur des Finances (CSF) d’utiliser comme cadre de référence en matière de normes budgétaires les comptes selon le «SEC 95». Par voie de conséquence, la méthodologie appliquée jusqu’à présent chaque année par le CSF pour contrôler si la Région respecte son objectif budgétaire sera modifiée de manière importante. Ce changement de méthodologie est expliqué en détail dans le SEC 95.

Pour expliquer comment l’objectif budgétaire «classique» de la Région de Bruxelles-Capitale est défini en 2004, on doit commencer par la détermination de l’objectif «codes 8».

La clé de répartition entre les Régions de l’objectif codes 8 est inchangée, mais le montant global de l’objectif pour les trois Régions est modifié. Celui-ci passe de 275,2 millions d’euros à 128,3 millions d’euros, soit une diminution de 147 millions d’euros.

L’objectif OCPP (Octrois de Crédits et Prises de Participations) nets à atteindre pour la Région bruxelloise se monte donc à 20,7 millions d’euros, soit 16% de 128 millions.

Remarquons que cette opération constitue en réalité un relâchement de l’objectif budgétaire global de la Région par rapport aux objectifs 2003. En effet, en 2003, la Région était tenue, premièrement, de réaliser un résultat net de codes 8 de 44 millions d’euros et, deuxièmement, de ne pas utiliser ce résultat pour améliorer son solde de financement. En 2004, l’objectif codes 8 étant ramené à

7 OCDE, Études économique de la Belgique : http://www.oecd.org/
20,7 millions d’euros, la Région peut utiliser la différence entre son résultat réel en *codes 8* et cet objectif pour améliorer son solde de financement.

Cette technique a d’ailleurs été utilisée dans le calcul de l’équilibre budgétaire pour un montant de 28,157 millions d’euros.


La première opération consiste en un resserrement de l’objectif consécutif au relâchement de la norme *codes 8*.

En effet, comme la norme *codes 8* a été relâchée globalement pour les trois Régions de 147 millions d’euros, en contrepartie, l’objectif budgétaire «classique» des Régions est resserré de ce même montant. La clé de répartition de ce montant est de 46% pour la Région flamande, 40% pour la Région wallonne et 14% pour la Région bruxelloise. Ainsi, suite à cette opération, le besoin de financement autorisé de la Région de Bruxelles-Capitale passe de 44,6 millions d’euros à 24 millions d’euros, soit une différence de 20,6 millions d’euros.

La seconde opération est liée à la *Déclaration Libératoire Unique*.

Il a été convenu que suite à cette opération les trois Régions recevraient globalement un montant forfaitaire de 75 millions d’euros, reparti entre elles sur la base du produit des droits de succession pendant la décennie 1993-2002. La clé de répartition pour la Région bruxelloise est de 20,15% ce qui mène à un montant de 15,11 millions d’euros.

En contrepartie de cette recette, l’objectif budgétaire 2004 des Régions est adapté à due concurrence. Cela revient à dire que la Région reçoit une recette qu’elle ne peut dépenser.

Pour la Région bruxelloise, l’objectif budgétaire est donc resserré de 15,11 millions d’euros et atteint finalement 8,89 millions d’euros.

### 5.6. Bruxelles-Capitale: Répartition du budget dans le secteur de l’emploi

L’exercice budgétaire 2004 est inspiré en droite ligne par le Plan d’action régional pour l’Emploi 2003 (PARE) qui a été élaboré en concertation avec les partenaires sociaux et adopté le 30 septembre 2003 par le Comité bruxellois de concertation économique et social.

Il est par ailleurs étroitement lié aux engagements pris par le Ministre de l’Emploi et le Gouvernement régional lors de la Conférence Nationale pour l’Emploi dont les conclusions concernant les entités fédérées ont été adoptées le 9 octobre 2003, par les représentants des exécutifs régionaux et communautaires et du Gouvernement fédéral.

Deux sont les lignes de forces qui peuvent être distinguées dans cet exercice budgétaire 2004.

1. La première porte sur la mise en œuvre des mesures prévues par le Pacte social pour l’Emploi des Bruxellois. A cet effet, les budgets relatifs à la création
des centres de références professionnelles ainsi qu’à la lutte contre la discrimination à l’embauche sont reconduits. En outre, de nouveaux moyens ont été mobilisés pour les «langues» et la promotion des filières de formation des jeunes en alternance.

2 - La seconde ligne de force de ce budget est axée sur le suivi de la Conférence nationale pour l’Emploi. Une des conclusions visait à renforcer les mesures d’accompagnement individualisé des chercheurs d’Emploi de notre région.


**Programme1:** Support de la politique générale y compris le fonctionnement de l’ORBEm et le développement d’une politique d’embauche et de partenariat en matière de recherche active d’emploi et d’insertion socioprofessionnelle

Le Réseau des plates-formes locales pour l’Emploi (RPE) rentre dans la phase finale d’extension aux 130 partenaires de l’ORBEm. Environ 1.245.000 € seront consacrés aux frais de fonctionnement de celui-ci alors que 206.000 serviront à prendre en charge les frais matériels que son extension engendrera. Bien plus qu’un nouvel outil dans la gestion du marché de l’Emploi par l’ORBEm, le RPE est étroitement lié à la mise en œuvre de la «gestion mixte» telle qu’instaurée par l’ordonnance du 27 juin 2003 votée par le Parlement régional. Au travers d’une réorganisation des ressources existantes et par une meilleure collaboration entre les nombreux intermédiaires du marché de l’Emploi bruxellois dans le gestion de l’offre, le RPE servira de véritable catalyseur aux structures déjà existantes et par la même, il doit être considéré comme répondant directement aux volontés esquissées par les participants à la Conférence nationale, de permettre un meilleur accompagnement des chercheurs d’Emploi.

Outre l’accroissement de ses moyens de fonctionnement, l’ORBEm disposera des moyens nécessaires pour assurer un effort supplémentaire en matière d’accompagnement des jeunes (2.149.000 €) mais également pour traiter décemment l’afflux croissant de demandes de permis de travail (118.000 €).

En application du Pacte social, fort des objectifs déjà atteints, il s’agira, en 2004 de développer les aides aux entreprises en matière de formation à l’embauche et de formation des jeunes en alternance. Avec un accroissement de 1.200.000 €, le budget des chèques langues et du nouveau régime des primes de transition professionnelle est presque doublé. L’objectif visé est de mettre à l’emploi plus de 400 jeunes via un *plan ROSETTA formation*.

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8 Plan de formation ROSETTA : http://www.orbem.be/Fr/Che chercheur/Info/info_stat_spec01_fr.htm
Enfin, en application de l’accord du non marchand, la revalorisation progressive des salaires des agents des missions locales est assurée, comme convenu avec les représentants du secteur de l’insertion socioprofessionnelle.

**Programme 2:** Promotion de l’emploi: programmes de remise au travail et de placement par l’intermédiaire de l’Office Régional Bruxellois de l’Emploi (ORBEm), y compris les droits de tirage.

Conformément aux propositions du PARE 2003, telles qu’adoptées par le Gouvernement dans la perspective de la Conférence nationale pour l’emploi, les marges disponibles des postes du programme Associate Customer Service (ACS) à prime de base et les nouveaux moyens alloués sont concentrés sur la création d’emplois peu qualifiés. Environ 570 nouveaux emplois sont été ainsi créées:

- 100 ACS de propreté publique auprès des pouvoirs locaux, via le système à point (2.300.000 €);
- 50 ACS à prime majorée auprès de l’Agence Régionale de Propreté (1.100.000 €);
- 135 ACS rémunérés dans les services de proximité (2.500.000 €);
- 250 ACS à prime majorée dans les autres secteurs prioritaires (6.250.000 €).

En outre, la revalorisation du statut salarial des puéricultrices occupées sous contrat ACS par les Communautés permettra que celles-ci soient rémunérées en 12/12ème plutôt qu’en 10/12ème comme actuellement. Le coût de cette revalorisation s’élève à 400.000 €.

**6) Un Etude Economique de l’OECD (2003)**

La Belgique commence à recueillir les fruits de son effort d’assainissement des comptes publics. Grâce à la baisse des paiements d'intérêts sur la dette publique, les autorités disposent d'une marge de manœuvre pour alléger la lourde charge fiscale qui pèse sur les contribuables. Les régions où le chômage structural est élevé devraient s'en trouver particulièrement avantagées. De nouvelles réductions des impôts frappant les revenus du travail, ciblées sur les bas salaires, devraient être opérées lorsque la situation budgétaire le permettra. Les autorités ont également commencé à s'attaquer au vaste problème de la retraite anticipée, notamment en supprimant l'exemption de l'obligation de recherche d'emploi dont bénéficiaient bon nombre de chômeurs âgés. Néanmoins, des efforts supplémentaires devront être faits pour réduire les incitations à la retraite anticipée et accroître la demande de travailleurs âgés si l'on veut atteindre l'objectif d'un doublement du taux d'emploi de la population active âgée ce qui accroîtrait également le taux d'emploi total actuellement bas en Belgique. La fiscalité des entreprises est un autre domaine de réforme important. D’un régime d’agrément préalable, la Belgique est devenue une destination plus intéressante pour les investissements directs internationaux.
6.1. Que faire pour améliorer la performance économique?

La mise en œuvre des réformes structurelles (réforme fiscale et réformes du marché du travail et des marchés de produits) afin d'augmenter la croissance potentielle reste la principale priorité des autorités en Belgique. La réduction de la dette est nécessaire pour respecter le traité de Maastricht, aux termes duquel la dette publique brute doit être ramenée à moins de 60% du PIB, mais surtout pour pouvoir faire face aux coûts budgétaires futurs liés au vieillissement de la population.

Elle est également nécessaire pour permettre un net allègement de la pression fiscale, l'une des plus élevées dans la zone OCDE.

La Belgique étant l'un des pays de l'OCDE où le taux d'emploi des personnes âgées de 55 à 64 ans est le plus faible. La stratégie adoptée par le gouvernement pour relever ces défis consiste à garder à la politique budgétaire une orientation propre à faire reculer la dette publique, à alléger les impôts, notamment sur la main-d'œuvre peu qualifiée, en fonction des marges budgétaires disponibles, et à réduire les incitations à un retrait prématuré de la population active.

Les défis économiques auxquels la Belgique est confrontée seront d'autant plus faciles à relever que les réformes de la fiscalité et des prestations renforceront les mécanismes du marché, et que les réformes des marchés des produits et du travail stimuleront le dynamisme économique.

6.2. Comment maintenir un solde budgétaire équilibré?

Le gouvernement a par ailleurs contribué aux bons résultats budgétaires en contenant la progression des dépenses courantes en dessous de la croissance du PIB potentiel, notamment en révisant en baisse les projets de dépenses lorsque les perspectives économiques à court terme se sont dégradées.

Le retour à l'équilibre, voire à un excédent, a servi de point d'ancrage important pour la crédibilité de la politique budgétaire en Belgique, et cette approche est donc appropriée, même si elle implique une neutralisation des stabilisateurs automatiques.

De manière générale, le gouvernement devrait adopter une stratégie plus nuancée qu'il ne l'a fait dans le passé récent en matière de freinage des dépenses, même si cela pose des problèmes de mise en œuvre plus complexes que l'application de plafonds et de réductions uniformes.

Une telle stratégie serait préférable du point de vue de l'efficience – considération de plus en plus importante étant donné le freinage des dépenses qui devra être opéré pour permettre le dégagement d'excédents budgétaires, conformément à l’objectif à moyen terme du gouvernement, tout en réduisant simultanément les impôts sur le revenu des personnes physiques.
6.3. Les avantages fiscaux dont bénéficie l'épargne à long terme sont-ils justifiés?

L’imposition du revenu du capital des personnes physiques est généralement faible en Belgique, malgré le poids élevé de la charge fiscale globale. La concurrence fiscale internationale a limité la possibilité d'imposer ce type de revenus.

Cet avantage fiscal a pour objet d’encourager ce type d’épargne et de compenser partiellement, dans le cas des revenus moyens et élevés, le fait que les prestations sociales sont plafonnées alors que les cotisations sociales ne le sont pas. Malgré un traitement fiscal aussi généreux, l'épargne institutionnelle est peu élevée par rapport aux autres pays.

Il serait préférable de réduire les avantages fiscaux en faveur de l’épargne du second pilier tout en rendant plus favorables les dispositions réglementaires applicables à ces instruments, grâce par exemple à un transfert plus facile des pensions du deuxième pilier, et en s’attaquant directement au problème de la progressivité du système d’imposition et de transfert.

6.4. Comment le système d'imposition du revenu des sociétés peut-il contribuer à ce que la Belgique reste attirante aux investisseurs étrangers?

D'importants progrès ont été faits pendant les années 90 pour atténuer les distorsions introduites dans les choix économiques par le système d'imposition du revenu des sociétés.

La Belgique se situe actuellement dans un groupe intermédiaire de pays pour ce qui est de l’écart entre le taux nominal et le taux moyen effectif de l’impôt sur les sociétés. Le coefficient de pression fiscale sur les sociétés (impôts divisés par les bénéfices) a lui aussi augmenté par rapport au taux nominal, l’écart qui subsiste encore tenant pour l’essentiel à des régimes fiscaux préférentiels (centres de coordination, de distribution et de services). Grâce à ces dispositifs, la Belgique constitue une destination attrayante pour certains types d’investissements internationaux, même si les taux moyens effectifs des impôts applicables aux investissements en provenance de l'étranger en vertu du régime normal de l’impôt des sociétés sont plus élevés pour les investisseurs internationaux que dans la plupart des autres pays d'Europe.

Le gouvernement a bien précisé qu’au cours des années à venir, l’une des principales priorités des réformes serait de veiller à ce que le régime d'imposition des entreprises en Belgique soit compétitif sur le plan international. La réforme fiscale réduira aussi la tentation que peuvent avoir les entreprises multinationales de transférer leurs bénéfices vers des pays où les taux d’imposition sont plus faibles; le durcissement des règles concernant la sous-capitalisation devrait également réduire les transferts de bénéfices.
6.5. Pourquoi le chômage régional est-il toujours élevé?

L'autre principal problème qui se pose sur le marché du travail est le niveau toujours élevé du chômage soit en Wallonie soit à Bruxelles. La principale institution nationale qui empêche le fort chômage des personnes de ce groupe d'exercer des pressions à la baisse sur les taux de salaire, et donc d'accroître la demande des services qu'ils peuvent fournir, est le système d'indemnisation du chômage.

Le chômage restera probablement élevé en Wallonie et à Bruxelles même après ajustement intégral aux réductions d'impôts actuelles et envisageables.

Étant donné que ce phénomène existe déjà depuis plusieurs années, il n'existe manifestement pas de solutions simples. Il pourrait être cependant possible de renforcer les incitations au travail en limitant la durée de versement de la deuxième tranche des allocations de chômage, qui est encore élevée pour bon nombre d'individus sans personne à charge, notamment en supprimant les disparités régionales.

Le gouvernement consacre d'importantes ressources à un grand nombre de programmes actifs du marché du travail. Ceux-ci devraient être plus régulièrement réexaminés afin que l'éventail des actions proposées accroisse le plus possible les chances des participants de trouver un emploi sur le marché du travail normal.
FRANCE
La nouvelle gouvernance financière publique en France

Michel Bouvier

1) La nouvelle gouvernance financière de l’Etat

L’élément essentiel et le plus remarquable de la réforme budgétaire en France (Loi organique du 1er août 2001 applicable à compter du 1er janvier 2006) se situe autant dans la modernisation des institutions financières que poursuit le texte que dans la réforme en profondeur de l’Etat qui devrait en résulter.

Contrairement en effet à l’impression technique que peut donner une première lecture de la loi, c’est plus largement un mode tout à fait nouveau de gouvernance qui s’y dessine pour les prochaines années.

La réforme budgétaire répond à deux grands objectifs :
• renforcer le pouvoir financier du Parlement
• rationaliser la gestion publique.

Elle s’appuie sur la responsabilisation, à tous les niveaux, des agents de l’Etat. Elle introduit une liberté d’action, une responsabilisation des acteurs, assortie d’un contrôle à posteriori de leur action.

Il y a passage d’une logique de moyens, qui ne prend en compte que le montant des crédits alloués, à une logique d’objectifs. La réforme substitue à cette logique de moyens, très irresponsabilisante, une logique de résultats qui fait de la performance un critère essentiel de bonne gestion.

A. Une conception stratégique de l’État et de la prise de décision financière publique

Les crédits ne sont pas présentés par nature mais de manière fonctionnelle, par catégories d’objectifs. La présentation des crédits par objectifs, outre son caractère stratégique a un avantage certain en favorisant une meilleure cohérence de l’action publique et en évitant un trop grand fractionnement des politiques publiques dans l’espace et dans le temps.

À compter de 2006 la structure du budget sera la suivante :

B. Une extension et une clarification du pouvoir de légiférer exercé par le Parlement

1°). Une extension du pouvoir de décision

2°). Un renforcement de la transparence budgétaire

C) . La mise en œuvre de la réforme

1°). Des responsables de programmes
2°). Des objectifs clairs et des indicateurs de performance
3°). Une nouvelle comptabilité de l’État
4°). Une évolution du rôle des institutions administratives et juridictionnelles de contrôle

2) La nouvelle gouvernance financière des collectivités locales

- Depuis que les premières lois de décentralisation ont été votées, en 1982/1983, les collectivités locales (36 600 communes, 100 départements, 26 régions) sont devenues des acteurs majeurs, elles sont sorties du cadre protégé, confortable à certains égards, qui était auparavant le leur lorsque l’Etat effectuait un contrôle à priori sur leurs actes.
- Cette évolution s’est poursuivie en 2003 par une révision constitutionnelle, la loi du 28 mars 2003 relative à l’organisation décentralisée de la République. Outre que ce texte étend le champ de compétences des collectivités territoriales, il élargit l’autonomie financière locale.
- Le désengagement de l’Etat, le contrôle à postériori qui a été institué, autrement dit la responsabilisation et la liberté accordées aux collectivités locales ont déclenché une dynamique nouvelle et un véritable pouvoir financier a pu prendre naissance.
- Les collectivités locales n’en ont pas fait un mauvais usage de leur autonomie financière, elles ont su maîtriser leurs dépenses, elles ont su gérer leurs finances,
- Le pouvoir financier local c’est aujourd’hui des budgets locaux importants avec environ 150 milliards d’€ ce qui représente la moitié du budget de l’Etat et 9% du PIB ; les impôts représentent 5% du PIB ;les ¾ des équipements publics civils sont réalisés par les collectivités locales (seulement 10% en 1980) ; elles emploient 1 400 000 fonctionnaires.

A. La responsabilisation et l’autonomie financière des collectivités locales

1°). Le contrôle à postériori de la gestion financière
2°). L’autonomie financière de gestion et de décision
- La fiscalité
- Les dotations de l’Etat
- L’emprunt
- Le produits du patrimoine et des services

B. L’utilisation de méthodes de gestion empruntées au management privé

1) Une comptabilité d’exercice
2) Une pratique ancienne de l’analyse financière rétrospective et prospective
3) Un contrôle de gestion développé
4) La multiplication des « satellites locaux » et la consolidations des comptes
La Réforme Budgétaire en France et la gestion budgétaire des Régions

di Raffaele Paudice

1ère Partie
La Réforme budgétaire en France

1) La loi organique du 1er août 2001

La loi organique du 1er août 2001 relative aux lois des finances (LOLF) a institué des nouvelles règles d’élaboration et d’exécution du budget de l’Etat, qui seront mises en oeuvre complètement à partir du projet de loi de finances pour 2006.

L’objectif de la réforme est de faire passer l’Etat d’une logique de moyens à une logique de résultats.

Jusqu’à la réforme l’attention à la préparation et l’examen des loi des finances donnaient attention surtout à l’évolution quantitative des crédits. Les discussions qui ont portés à l’élaboration de la nouvelle loi concernaient, au contraire, la question des objectifs et du rapport coût/efficacité des politiques publiques.

L’attention à la performance suppose ainsi une capacité de la mesurer de façon objective. L’article 51 de la LOLF dispose que la présentation des actions de l’Etat est fait au regard « des coûts associés, des objectifs poursuivis, des résultats obtenus et attendus pour les années à venir mesurés au moyen d’indicateurs précis dont le choix est justifié ».

2) La nouvelle structure du budget

Avant la réforme, selon le modèle de l’ordonnance de 1959\(^1\), le budget de l’Etat allouait les crédit aux ministères en les répartissant entre environ 850 chapitres correspondant à des natures des dépenses. Le budget était composé de 27

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\(^1\) Ordonnance n° 59-2 du 2 janvier 1959 portant loi organique relative aux lois des finances.
sections, présentées par titre. La LOLF, en cohérence avec une logique de résultats, prévoie le vote par finalité.

Les budget résulte ainsi structurée en trois niveau :

1. **34 missions** qui dessinent les grandes domaines des politiques des l’Etat.
2. environ **150 programmes** qui délimitent les responsabilités de mise en œuvre des politiques.
3. environ **500 actions** qui détaillent les finalités des programmes.

La mission regroupe des programmes ministériels, unité de spécialités des crédits. Chaque programme regroupe « des crédits destinés à mettre en œuvre une action ou en ensemble cohérent d’actions relevant d’une même ministère auxquels sont associés des objectifs en fonction de finalités d’intérêt général ainsi que des résultats attendus faisant l’objet d’une évaluation ».

Les missions peuvent être ministérielles ou interministérielles et donnent une vision agrégés des grands domaines d’intervention de l’Etat.


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<th>Titre</th>
<th>Dotations de pouvoirs publics</th>
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<tr>
<td>Titre 1</td>
<td>Dépenses personnel</td>
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<td>Rémunérations d’activité</td>
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<td>Cotisations et contributions sociales</td>
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<td>Prestations sociales et allocations diverses</td>
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<tr>
<td>Titre 2</td>
<td>Dépenses de fonctionnement</td>
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Le titre 2 « dépenses de personnel » est une autre nouveauté introduit par la LOLF, et concerne toute rémunération due à une personne physique par l'Etat et il rassemble les rémunérations d’activité, les cotisations et contributions sociales, les prestations sociales et les allocations diverses. Ces dépenses du titre 2 constituent un sous-plafond au sein des programmes.

En outre, la nouvelle nomenclature est plus cohérente avec la nomenclature générale, et, par exemple, la distinction entre dépenses ordinaires et dépenses en capital est abandonnée.

A partir du projet de finances pour 2005, en annexe, les crédits du budget sont présentés en façon matricielle, selon la nouvelle nomenclature, c’est-à-dire par destination (mission, programme, action) et par nature des dépenses (titre et catégorie).

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<tr>
<th>Titre 3</th>
<th>Dépenses de fonctionnement autres que celles de personnel</th>
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<td>Subventions pour charges de service public</td>
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<td>Titre 4</td>
<td>Charges de la dette de l’Etat</td>
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<td>Charges financières diverses</td>
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<td>Titre 5</td>
<td>Dépenses d’investissement</td>
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<td>Dépenses pour immobilisations corporelles de l'Etat</td>
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<td>Dépenses pour immobilisations incorporelles de l'Etat</td>
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<td>Titre 6</td>
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<td>Titre 7</td>
<td>Dépenses d’opérations financières</td>
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<td>Prêts et avances</td>
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<td>Dotations en fonds propres</td>
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<td>Dépenses de participations financières</td>
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La présentation du budget d’un ministère

### Mission : nom de la mission

### Programme : nom du programme

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<tr>
<th>Actions</th>
<th>Titre 1</th>
<th>Titre 2</th>
<th>Titre 3</th>
<th>Titre 7</th>
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3) Objectifs et indicateurs de performances

Chaque avant-projet annuel de performance débute par une présentation du programme exposant ses finalités, son contexte, son organisation et les activités principales.

La présentation du programme est complétée par une explication des actions qui le compose.

La stratégie de chaque programme est exposée et se traduit sous forme d’objectifs et d’indicateurs de performances.

Les objectifs peuvent être :

- **objectifs d’efficacité socio-économique**, qui énoncent le bénéfice attendu par l’action de l’État pour les citoyens et la collectivité en termes de modification de la réalité économique, sociale, environnementale, culturelle et sanitaire.

- **objectifs de qualité de service**, qui énoncent la qualité du service rendu aux usagers.

- **objectifs d’efficience de la gestion**, qui expriment les gains de productivité attendu dans l’utilisation des moyens employés en rapportant les produits obtenus aux ressources consommées.

Les objectifs annuels sont définis dans une perspective pluriannuelle, et sont en nombre limité, correspondant aux priorités des responsables de programme en matière d’amélioration de la dépense.

Ces objectifs sont commentés au but d’expliquer les choix des indicateurs qui doivent permettre de mesurer leur réalisation et de présenter les principaux leviers d’action mis en œuvre par les responsables de programme.

Les objectifs et les indicateurs de performances présentés dans le avant-PAP sont objet d’une concertation approfondie entre les ministères et responsables de programmes concernés et le ministère de l’économie, des finances et de l’industrie.
4) La nouvelle procédure budgétaire

La LOLF donne beaucoup d’importance aux Rapports Annuels de Performances (RAP), compte-rendu de l’exécution des projets annuels de performances.

La préparation des RAP et l’examen de l’exécution du budget précédent sont un moment important de l’élaboration du projet de loi des finances suivant. Ces rapports sont établis avant le 1er juin.

4.1. les modalités de vote de la loi des finances

Avant la loi organique, 94% des crédits étaient reconduits en un seul vote, avec un débat approfondi seul pour les mesures nouvelles.

Avec la LOLF le 100% des crédits sont votés par mission et examinés par programmes.

En effet la mission est l’unité de vote du Parlement, qui en un seul vote approuve l’intégralité du budget d’une mission et la répartition entre titres. Les parlementaires peuvent procéder à des redéploiements de crédits entre les programmes d’une même mission.

Les parlementaires sont amenés à se prononcer sur le budget en 50 votes2 :
- 1 vote pour les recettes
- 1 vote par mission (budget général, budgets annexes et comptes d’affectation spéciale), soit 47 votes
- 1 vote pour les Autorisations d’emploi
- 1 vote pour les ressources et charges de trésorerie.

La LOLF, afin de lier systématiquement la prévision budgétaire à l’analyse de l’exécution, prévoit que à partir de 2006, la loi de règlement de l’exercice N-1 doit être présentée au Parlement avant le Projet de Loi des Finances pour l’année N+1.

A partir de 2006 l’autorisation parlementaire sera donnée d’une part en autorisations d’engagement (capacité à engager juridiquement l’Etat), et d’autre part en crédits de paiement (volume de trésorerie nécessaire pour couvrir les engagements pris). Les responsables de programme pourront suivre en parallèle leurs engagements et leurs trésorerie (gestion de deux enveloppes distinctes).

Les Autorisations d’Engagements (AE) de la LOLF sont votées annuellement et ne sont pas reportables de droit3.

En outre, en 2006 toutes les crédits seront gérés en deux enveloppes d’autorisation d’engagement et de Crédits de Paiement (CP).

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2 Articles 43, 47 de la LOLF et article 40 de la Constitution.
3 Ce sont les deux différences principales qui distinguent le AE des Autorisations de Programme (AP) de l’ordonnance de 1959.
4.2. les Projets Annuels de Performance

Les Projets Annuels de Performance (PAP), à la différence des précédents documents budgétaires, présentent une vision synthétique de l’ensemble des moyens (crédits budgétaires, dépenses fiscales, recours à des opérateurs) qui concourent à la réalisation des principales politiques publiques.

Un élément nouveau dans l’appréciation des dépenses est, dans les PAP, la justification au premier euro des crédits.

Dans le cadre de la discussion budgétaire, chaque dépenses devra être justifiée et expliquée.

La justification au premier euro sera synthétique, analytique et ordonnée par nature et dépenses.

A partir du PLF 2006 les PAP présenteront conjointement les crédits et l’évaluation des dépenses fiscales contribuant à la réalisation des objectifs d’un même programme.

Enfin, à partir de 2006, dans les PAP seront présentés les opérateurs de l’Etat qui contribuent à la réalisation du programme. Il y figurera :

− Une brève explication des missions de l’opérateur, des actions auxquelles se rattache l’opérateur, de la nature des liens avec lui et des principaux objectifs et indicateurs de l’opérateur.
− La récapitulation des crédits du programme destinés aux opérateurs.
− La consolidation des emplois du programme avec ceux des opérateurs.
Le Rapport entre l’État et les Régions

5) Caractère de la République Française

La République Française est un État unitaire avec une tradition de forte centralisation politique et administrative, qui remonte de la conception napoléonienne de l’État vu comme facteur de compression de chaque forme d’autonomie locale.

Même la Constitution de 1946 affirme au 1er article l’indivisibilité de l’État, bien que l’article 60 et suivants sanctionne l’existence des départements et territoires d’outre-mer.

La Constitution de 1958 répète le principe de indivisibilité (article 1) de l’État mais souligne l’existence des collectivités locales, telles que les communes, les départements et les territoires d’outre-mer. Les principes des collectivités locales sont, en outre établis aux articles 72 et suivants, et à l’article 34.

Aujourd’hui en France quatre sont les niveaux de l’administration :
- État
- Régions
- Départements
- Communes

5.1. Les Communes

Les Communes sont le niveau base de l’administration territoriale et tirent ses origine de la révolution de 1799.

Actuellement il y a en France environ 37.000 communes, mais il faut rappeler que ici n’existent pas des limites de grandesse ou de population, ainsi que 80% des communes a une population inférieur à 1000 habitant.

Après la promulgation de la loi 6 février 1992, beaucoup entre eux ont formé interurbaines et des syndicats intercommunaux.

Chaque commun a son assemblée délibérant et son organe exécutif.

5.2. les Départements

Les cent Départements, dont se compose la France, ont origine, comme les communes en 1789, et sont le niveau le plus important de l’organisation administrative française.
Les actions qu’ils mènent concernent surtout le domaine sociale, les interventions dans les zones rurales, l’administration routière et scolaire.

Le préfet, nommé par le gouvernement, a détenu le pouvoir exécutif dans le départements de 1800 à 1982. Il représente le pouvoir de l’Etat dans le département et a un pouvoir de supervision sur l’administration départementale.

La loi de 1982 a donné pouvoir exécutif au Département, qui l’exercice à travers le Président du Conseil Générale de Département.

5.3. les Régions

Les régions ne tirent pas origine de la Constitution et sont une nouveauté dans la tradition administrative française.

Elles déterminent le développement régional dans les domaine de l’enseignement, des transports, de la culture et du tourisme. En bref les régions ont une mission planificatrice.

L’histoire des régions remonte de 1919 lorsque le ministre du Commerce Clémentel affirme la nécessité de constituer 15 groupes économiques régionales, avec le but de renforcer la reconstruction après la guerre.

A la fin de la 4ème République, en 1954, on assiste à la création d’une régionalisation « fonctionnelle » : nombreux associations nées à partir de la même année au but de développer l’économie régionale, sont reconnues sous la forme de « Comités d’Expansion Economique ». Le décret 30.6.1955 institue les « Régions de programme », crées pour élaborer des plan de développement qui avaient soit une fonction de stimulation économique que d’aménagement du territoire.

En 1964 ont été crées les Circonscriptions d’Action Régionale (CAR), qui étaient des vrais administrations locales avec ses propres organes : le Préfet de la Région, la Conférence Administrative Régionale et la Commission de Développement Régionale.

La loi 5-7 du 1972, fortement voulu par le président De Gaulle, transforme les CAR en Etablissements Publics Régionaux (EPR), dotés des leur assemblée et de leur conseil, mais avec le préfet, représentant de l’Etat qui exerçait le pouvoir exécutif.

Mais la vraie révolution en faveur des collectivités locales se produit en 1982 avec l’approbation de la loi n° 213 du 2 mars, qui ouvre la voie au processus de décentralisation en France e qui reconnaît les Régions au même niveau des autres collectivités locales. La définitive mis en place de la réforme a été l’élection, en 1986, des conseils régionaux par suffrage universel.

La reconnaissance constitutionnelle des régions arrive en 2003, avec la loi constitutionnelle n° 276-2003 de 28 mars, qui à l’article 72 établi que « Les collectivités territoriales de la République sont les communes, les départements, les régions, les collectivités à statut particulier et les collectivités d'outre-mer régies par l'article 74. Toute autre collectivité territoriale est créée par la loi... »
6) La coopération entre État et Région : les contrats de plan

Le principe de la subsidiarité est réalisé en France, principalement, à travers l’instrument des contrats de plan ou planification contractuelle.

On peut repérer quatre types de rapports contractuels entre État et Régions :

– Conventions qui ont pour objet la détermination du financement de particulières opérations, qui nécessitent de la collaboration entre le niveau central et locale.

– Contrats de coopération, qui ont le but de définir les domaines de compétences pour la réalisation d’action d’intérêt commun.

– Contrats relatifs à l’exercice de compétences, prévus expressément par la loi, à travers lesquels on peut déroger aux règles générales de la répartition des compétences en certains domaines

– Conventions d’assistance administrative et technique, qui opèrent des échanges entre les différents niveaux pour l’exercice des propres compétences.

La loi n° 82-653 du 29 juillet 1982, portant réforme de la planification, à l’article 1 discipline le Plan de Nation : « le plan détermine les choix stratégiques et les objectifs à moyen terme du développement économique, social et culturel de la nation ainsi que les moyens nécessaires pour les atteindre ».

La même loi à l’article 11 définit le but des contrats de plan en décrétant que « l’État peut conclure avec les collectivités territoriales, les régions, les entreprises publiques ou privées et éventuellement d’autres personnes morales, des contrats de plan comportant des engagements réciproques des parties en vue de l’exécution du plan et de ses programmes prioritaires », et l’article 12 établit que ils ne peuvent « que contenir que des clauses contractuelles ».


Le Président de la Région est chargé de l’élaboration du projet de contrat, qui doit être envoyé au préfet, qui après envoie le projet à Paris auprès un comité interministériel expressément constitué.

Après une phase de négociation entre le Présidente de la Région et le préfet, l’approbation par le gouvernement est liée à la compatibilité des plans des régions entre eux et avec le Plan de Nation.

Enfin les régions souscrivent des autres contrats de plan particuliers concrétisant les dispositions des contrats de plan principaux. Le premier contrat de plan a été signée le 6 février 1984 entre l’État et la Franche-Comté.

Donc les régions ont un rôle déterminant dans la planification. En effet :


– Elles ont la compétence planificatrice de droit commun pour tous les objectifs de développement économique, social et culturel.
— Elles favorisent l’émerison des projet décentralisées de développement.

En ce cadre on peut dire que les contrats de plan représentent l’instrument fondamental à disposition des majorités du gouvernement régional pour la mis en place de leur programme politique.
Les Régions françaises
7) Règles et instructions budgétaires et comptables des collectivités locales

L’article 52 du décret du 29 décembre 1962 portant règlement général de la comptabilité publique dit que les collectivités locales doivent s’inspirer au PCG (Plan Comptable Général) de 1982, qui a été rénové en 1989.

Le texte législatif fondateur des règles budgétaires et comptables applicables aux communes, aux départements et aux régions est la loi abrogée n°94-504 du 22 juin 1994 portant dispositions budgétaires et comptables relatives aux collectivités locales.


7.1. Les Communes et leurs établissements publics (l’instruction M14)

Depuis le 1er Janvier 1997 à l’ensemble de communes, à leurs établissements à caractère administratif, aux établissements publics de coopération intercommunales, aux centres communaux et intercommunaux d’action sociale et aux caisses des écoles on applique l’instruction budgétaire et comptable M14.

Sur le plan comptable le M14 reprend l’organisation, les intitulés et les codifications de la nomenclature pour nature du PGC, mais surtout ses principes comptables. Ils sont :

1. Sincérité : une évaluation correcte de l’ensemble des charges et des produits, et de traduire la totalité des engagements afin de ne pas fausser les résultats à la clôture de l’exercice.

2. Prudence : afin d’éviter les risques de transfert sur l’avenir des incertitudes présentes, et de graver le patrimoine ou la gestion de la collectivité, les collectivités de plus de 3500 habitants ont l’obligation d’amortir et de provisionner.

a. L’amortissement : c’est une technique comptable qui permet chaque année de constater forfaitairement la dépréciation des biens et de dégager les ressources destinées à les renouveler.

L’amortissement est obligatoire seulement sur une partie de l’actif, et concerne les biens meubles, les collections d’oeuvre.
d’art, les biens immeubles productifs de revenus et les immobilisations incorporelles.

b. La constitution d’une provision : la provision a le but de faire face à un risque probable ou à une dépréciation qui n’a pas encore un caractère définitif.

Sure le plan budgétaire et comptable la constitution d’une provision correspond à une charge de fonctionnement (dotation) et une recette d’investissement (provision).

On distingue deux catégories de provisions : de droits commune (celles prévues par PCG) et celles qui sont réglementées. Seule trois provisions à caractère réglementées sont obligatoires pour les communes :
- La provision spéciale pour garantie d’emprunts : elle doit être prévue dès lors que la commune garantie les emprunts d’un tiers privé (sauf pour ce qui concerne les logements sociaux).
- la provision spéciale pour différé de remboursement de la dette.
- la provision pour litige et contentieux : elle doit être prévue dès lors qu’une condamnation a eu lieu en première instance et rend donc probable la condamnation définitive.


Le recours à la procédure des autorisations de programme et de crédits de paiements permet de respecter la règle de l’annualité, en évitant de gonfler les masses budgétaires par l’inscription de dépenses et de recettes qui concernent des opérations à caractère pluriannuel. En effet, sont inscrits au budget les seules crédits de paiement de l’exercice qui concernent la fraction de l’opération qui sera effectivement réalisée et payée dans l’exercice.

Sur le plan budgétaire le M14 permet :

1. Un approche par service : le budgets des communes de 3.500 à 10.000 habitants sont présentés en façon fonctionnelle, et les communes de plus de 10.000 habitants ont l’option de vote par fonctions. Avec la

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4 La dotation aux amortissements est calculée en prenant en compte le coût historique de l’immobilisation, selon une méthode linéaire (une méthode dégressive, variable ou réelle est possible sur délibération de la commune) dont la durée est fixée par l’assemblée délibérante par référence au barème établi par l’instruction M14.

5 La section d’investissements, des crédits engagés non mandats à la fin de l’exercice constituent des restes à réaliser repris dans l’exercice suivant.

6 Article L. 2312-3 du CGCT.
nomenclature fonctionnelle les recettes et dépenses d’un commune apparaîtront avec une répartition par secteur d’activité et par grandes masses financières.

2. Une simplification et une adaptation aux contraintes de gestion : la collectivité peut voter globalement certains chapitres de fonctionnement ainsi que les crédits nécessaires à une opération d’équipement. L’intérêt d’un vote par chapitre d’opération au sein de la section d’investissement est un élément d’élasticité accru en terme de gestion de crédits budgétaires. C’est ainsi accru même la fongibilité de crédits qui sont traditionnellement classés dans des chapitres différentes.

La procédure de détermination et d’affectation a été modifiée, et les résultats sont affectés et déterminés à la clôture de l’exercice, au vue du compte administratif.

3. La modernisation du cadre budgétaire : la présentation des documents budgétaires a été renouvelée.


7.2. Les Départements et leurs établissements publics (l’instruction M52)

Le nouveau plan comptable des départements a été expérimenté à partir de 1er Janvier 2001 par 16 départements pilotes et à partir de 2003 1er janvier cinq autres départements se sont ralliés à l’expérimentation.


L’instruction M52 s’inspire à la M14, et donc ses règles sont presque identiques. On retrouve les mêmes principes de la double présentation par nature et par fonction, celui de l’amortissement et des provisions et celui du rattachement des charges et des produits à l’exercice auquel ils se rapportent.

Toutefois la M52 se distingue de la M14 sur les suivants points :

– L’amortissement obligatoire : c’est différent le champ d’application. En effet les départements procèdent à l’amortissement de ses immobilisations (incorporelles et corporelles) à l’exception des réseaux et installations de voirie dont l’amortissement est facultatif. Cet amortissement ne s’applique pas aux immobilisations qui soient propriété du département et qui soient remises en affectation ou à disposition, aux terrains et aux aménagement de terrains, sauf les terrains de gisements, et aux collections d’oeuvre d’art.

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7 Articles L. 2311-5, R. 2311-11 à R. 2311-13 du CGCT
8 Ces textes sont codifiés dans le code général des collectivités locales.
9 C’est aussi prévu un mécanisme de neutralisation budgétaire de la dotation aux amortissements des bâtiments administratifs et scolaires.
Les provisions : le provisions des départements ne sont pas réglementées, mais elles sont semi-budgetaire. Ainsi les sommes provisionnées par les départements sont mises en réserve sur un compte de bilan, à la différence des provisions des communes qui participent à l’autofinancement et sont utilisées en recettes d’investissement dans l’exercice.

Le traitement des subventions d’équipements versées : elles ne sont pas imputées en section de fonctionnement comme les commune, mais directement en section d’investissement.

Les autorisations d’engagements et de crédits de paiement : les départements peuvent effectuer les autorisations d’engagements et de crédits de paiement pour gérer certains dépenses de fonctionnement de façon pluriannuelle.

7.3. Les Régions (l’instruction M71)
L’instruction M71 doit se substituer à l’instruction M51 applicable aux régions. Cette nouvelle nomenclature est encore en cours d’élaboration ; en effet les travaux avaient été interrompus pour l’oppositions des régions sur le traitement comptable et budgétaire des subventions d’équipements.

La reprise de travaux a été rendue possible en considérant ces subventions comme des dépenses d’investissements.

En générale la nomenclature M71 s’inspire à la M14 et à la M52.

La M71 sera expérimenté par les régions métropolitains pendant deux (c’est-à-dire un cycle budgétaire complet) ans à partir du 1er janvier 2005. Pour les Régions d’outre-mer l’expérimentation débutera à compter du 1er janvier 2006.

Les procédures des autorisations de programmes et crédits de paiement et des autorisation d’engagements et crédits de paiement seront différentes de celles des communes et des départements et seront une des spécificités de la M71.

8) La préparation des budgets locaux

8.1. Le débat d’orientation budgétaire
Le débat de l’assemblée délibérante sur les orientations budgétaires est une phase préalable qui précède l’examen du budget.

Elle n’emporte aucune décision mais constitue une formalité substantielle, à défaut de laquelle toute délibération budgétaire pourra être déferée au juge administratif pour illégalité. Le but de ce débat c’est d’éclairer le vote des élus.

Le débat doit intervenir, pour les communes et les départements, dans un délai de deux mois précédant le vote du budget, et de 10 semaines pour les régions.

Il doit faire l’objet d’une délibération distincte de celle du budget.
8.2. L’élaboration et la présentation

Le budget est proposé par l’exécutif et voté par l’assemblée délibérante. Le budget obéit à des règles définies par la loi et à un formalisme pour ce qui concerne sa structure.

Les règles budgétaires et comptables qui les collectivités locales doivent respecter dans l’élaboration du budget sont :

− **L’unité** : l’ensemble des recettes et des dépenses du budget doit apparaître dans un document unique\(^{10}\).

− **L’universalité** : l’ensemble des recettes doit servir à couvrir l’ensemble des dépenses. Ce principe se décompose en deux règles :
  
  − la **non-affectation** : une recette particulière ne peut pas être affectée à une dépense particulière.
  
  − la **non-contraction** : elle est dite aussi « règle du produit brut » et oblige à inscrire dans le budget toutes les dépenses et recettes, sans contraction entre elles.

− **L’annualité** : le budget autorise les dépenses et les recettes pour une année civile qui commence le 1\(^{er}\) janvier et termine le 31 décembre. Les collectivités ont jusqu’au 31 mars de l’exercice auquel il s’applique pour adopter leur budget\(^{11}\).

− **La spécialité** : Les dépenses et les recettes ne sont autorisées que pour un objet particulier. Les crédits sont ouverts et votés par chapitre ou par articles, et ainsi les recettes et les dépenses sont classées par chapitre ou par article, dans chacun section.

− **L’équilibre** : les collectivités sont obligées à voter en équilibre chacune de deux sections de leur budget. Ce principe impose aussi que un emprunt ne peut pas être remboursé par un autre emprunt\(^{12}\).

− **La sincérité** : l’ensemble des produits et des charges inscrits au budget doit être évalué de façon sincère.

En ce qui concerne la structure du budget, l’instruction M14 définit un mode de présentation normalisé des documents budgétaires qui doit être respecté.

Le but de cette obligation est de permettre aux tiers qui consultent le budget de le lire facilement.

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\(^{10}\) Font exception à cette règle les services publics industriels et commerciaux, les services soumis à la TVA et les services à caractère social gérés par la collectivité elle-même qui sont constitués en budgets annexes.

\(^{11}\) À cette règles existent trois atténuations, c’est-à-dire la journée complémentaire (qui permet au collectivités locales de procéder au mandatement des leurs dépenses de fonctionnement jusqu’au 31 janvier de l’année suivante), le budget supplémentaire et les décisions modificatives, la gestion pluriannuelle (les collectivités locales peuvent utiliser des autorisations de programme pour gérer leurs opérations pluriannuelles).

\(^{12}\) C’est-à-dire que le remboursement de l’annuité en capital de la dette doit être effectué par des ressources propres (article L. 1612-4 du CGCT) .
La structure est la même quel que soit le mode de vote, par fonction ou par nature, et se compose de quatre parties :

<table>
<thead>
<tr>
<th>1ère partie</th>
<th>Information générale sur le budget avec données statistiques, fiscales et financières</th>
</tr>
</thead>
<tbody>
<tr>
<td>2ème partie</td>
<td>Présentation générale du budget constituée de :</td>
</tr>
<tr>
<td></td>
<td>– Tableau relatif à l’équilibre financier qui permet d’analyser la situation financière de la collectivité, de connaître l’équilibre budgétaire et le niveau d’autofinancement.</td>
</tr>
<tr>
<td></td>
<td>– Balancer général est un document récapitulatif de l’ensemble des chapitres budgétaires ouverts par natures qui distingue les opérations réels des opérations d’ordre.</td>
</tr>
<tr>
<td></td>
<td>Pour les budgets votés par fonction il y a aussi une récapitulation par groupes fonctionnels</td>
</tr>
<tr>
<td>3ème partie</td>
<td>C’est subdivisée en deux sections :</td>
</tr>
<tr>
<td></td>
<td>Section de fonctionnement qui comprend :</td>
</tr>
<tr>
<td></td>
<td>– en recettes, les produits annuels définitifs et réguliers de la collectivité, le produit des impositions locales, les dotations versées par l’Etat, les autres produits autorisés par les lois et règlements ou résultant de décisions de justice ou conventions.</td>
</tr>
<tr>
<td></td>
<td>– en dépenses, les dépenses de personnel et les frais de fonctionnement courant, les charges financières liées au service de la dette.</td>
</tr>
<tr>
<td></td>
<td>Section d’investissement qui comprend :</td>
</tr>
<tr>
<td></td>
<td>– en recettes, des recettes temporaires ou ponctuelles, telles que le produit des emprunts ou des taxes ou des subventions d’équipement perçues.</td>
</tr>
<tr>
<td></td>
<td>– en dépenses, les dépenses d’équipement, les dépenses financières, en particulier liées au remboursement de l’annuité en capital des emprunts contractés.</td>
</tr>
<tr>
<td>4ème partie</td>
<td>Annexes qui complètent l’information des élus et des tiers tels que :</td>
</tr>
<tr>
<td></td>
<td>– en cas de vote par nature, la présentation croisée par fonction. Si le budget est voté par fonction, dans les annexes il n’y a pas la présentation croisée par nature, qui est intégrée dans la page relative au vote de chaque chapitre.</td>
</tr>
<tr>
<td></td>
<td>– L’état de la dette départementale</td>
</tr>
<tr>
<td></td>
<td>– L’état des immobilisations</td>
</tr>
<tr>
<td></td>
<td>– L’état du personnel</td>
</tr>
<tr>
<td></td>
<td>– La liste de concours aux associations.</td>
</tr>
</tbody>
</table>

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8.3. Le vote

Les membres des conseils communaux sont normalement convoqués pour le vote du budget dans un délai de cinq jours, et le membres des conseils départementaux et régionaux dans un délai de douze jours.

A la convocation doit être jointe une note explicative de synthèse\textsuperscript{13} pour les membres du conseil municipal. Les membres des conseils généraux et régionaux reçoivent un rapport sur les affaires soumis à délibération. La note préalable doit être suffisamment détaillé et un membre d’un assemblée peut demander des pièces complémentaires qui lui permettent d’éclairer le débat.

Le vote de l’assemblée délibérante porte sur deux sections. Elle peut décider de voter le budget par chapitre ou par article. Pour permettre ce vote l’exécutif doit présenter le budget par article.

Si l’assemblée délibérante décide de spécialiser certains articles, l’exécutif ne peut plus réaliser des virements de crédits d’article à article à l’intérieur du chapitre.

9) Le contrôle budgétaire

Le contrôle budgétaire des collectivités locales et des établissements publics locaux est régi par les articles L. 1612-1 à L. 1612-20 du Code Général des Collectivités Territoriales (CGCT).

Le contrôle est exercé à posteriori par le préfet en liaison avec la Chambre Régionale des Comptes (CRC).

Les règles que le contrôle doit faire respecter portent sur quatre points :

1. La date d’adoption et de transmission du budget :
   La date limite de vote des budgets est fixée au 31 mars de l’exercice, avec des exceptions telles que l’année de renouvellement des assemblées délibérantes (15 avril), le cas d’absences par l’Etat des informations indispensables à l’élaboration des budgets\textsuperscript{14} et lorsque le budget de l’exercice précédent a été réglé d’office par le préfet\textsuperscript{15}.
   Le budget doit être transmis au préfet au plus tard 15 jours après son adoption. A défaut le budget est arrêté d’office par le préfet en collaboration avec le CRC.

2. L’équilibre réel du budget :
   Selon les articles L. 1612-4 et L. 1612-5 du CGCT le budget est considéré en équilibre lorsque :
   – les deux sections sont votées en équilibre.

\textsuperscript{13} L. 2121-12 du CGCT.
\textsuperscript{14} La liste de ces informations est fixé par l’article D. 162-2 du CGCT. En ce cas les assemblées disposent d’un délai supplémentaire de 15 jours à partir de la date de notification de ces informations.
\textsuperscript{15} La date limite de vote est fixée au 1er ou 15 juin de l’année de renouvellement des assemblées locales.
− les dépenses et les recettes sont évaluées de façon sincère.
− l’annualité de la dette est couverte par des ressources propres.

En cas de budget qui n’est pas en équilibre, le préfet met en œuvre une procédure budgétaire et en collaboration avec le CRC propose à la collectivité locale des mesures de redressement. Si, dans un délai d’un mois, la collectivité prend une nouvelle délibération comportant des mesures qui la CRC juge suffisantes le budget est définitivement arrêté par l’assemblée même. En cas contraire le budget est arrêté par le préfet.

3. La date de vote, l’équilibre et le rejet du compte administratif :

Le vote des conseils arrêtant les comptes doit intervenir avant le 30 juin de l’année suivant celle du budget primitif et la transmission au préfet doit intervenir au plus tard 15 après la date limite d’adoption. Si les dates de vote et de transmission ne sont pas respectées le préfet saisit la CRC.

Le préfet saisit même la CRC si le déficit est égal ou supérieur à 10% des recettes de la section de fonctionnement, en cas des communes de moins de 20.000 habitants, et à 5% pour les autres.

En cas que la collectivité ne prend pas de mesures suffisants pour résorber le déficit, le budget est réglé d’office et rendu exécutoire par le préfet.

4. L’inscription et le mandement d’office des dépenses obligatoires :

La notion de dépenses obligatoires est précisée par l’article L. 1612-15 du CGCT comme les « dépenses nécessaires à l’acquittement de dettes exigibles et les dépenses pour lesquelles la loi l’a expressément décidé ».

Les collectivités locales sont tenues d’inscrire dans leur budgets les crédits correspondants à ces dépenses obligatoires et de les mandater.

Si une dépense obligatoire n’a pas été inscrite au budget le préfet a le pouvoir, avec l’intervention de la CRC, d’inscrire d’office cette dépense au budget.

\[16\] On trouve une liste de ces dépenses à l’article L. 2321-2 pour les communes, L. 3321-1 pour les départements et L. 4321-1 pour les régions.
\[17\] Article L. 1612-15 du CGCT.
\[18\] En matière de dépenses obligatoires résultant d’une décision juridictionnelle passée en force de chose jugée, la loi n°80-539 du 16 juillet 1980 modifiée a institué une procédure particulière d’inscription et de mandement d’office qui est mise en œuvre par le seul préfet sans l’intervention de la CRC.
Les concours financiers de l’Etat aux collectivités locales

10) L’enveloppe normée

La base des relations entre l’Etat et les collectivités locales est l’« enveloppe normée », qui regroupe les principaux concours financiers de l’Etat aux collectivités territoriales.

L’enveloppe est un résultat de la contractualisation des concours financiers de l’Etat aux collectivités locales et a le but de permettre une meilleure prévisibilité de l’évolution des dotations.

Ce dispositif a été introduit pour la première fois en 1996, s’agissant alors du « Pacte de Stabilité Financière pour 1996-1998 », et englobait :

- la DGF (Dotation Globale de Fonctionnement),
- le dotations de l’Etat au FNPTP (Fond National de Péréquation de la Taxe Professionnelle) et au FNP (Fond Nationale de Péréquation),
- la DSI (Dotation Spéciale Instituteurs),
- la DGE (Dotation Générale d’Equipement),
- les DGD (Dotations Générales de Décentralisation), la DGD Corse, la DGD formation professionnelle,
- les DDEC et les DRES (Dotation d’Equipements Scolaire des Départements et des Régions).

Ces dotations, incluses dans l’enveloppe normée, évoluaient en fonctions de leurs règles d’indexation propres. Ces indexations étaient généralement plus élevées que l’indexation retenue pour l’enveloppe elle-même.

La loi de finances de 2004 a modifié l’architecture des dotations et a réorganisé le mécanisme de l’enveloppe normé. En effet la loi de finances 2004 prévoit que l’enveloppe normée progresse au rythme de l’inflation prévisionnelle pour 2004 (1,5%) majorée de 33% de la croissance attendue du PIB pour 2003 (0,5%), c’est-à-dire de +1,67% en 2004.


11) La refonte des dotations en 2004

La réforme des dotations de la loi des finances pour 2004, a le double objectif de simplification et clarification, d’une part, et de renforcement de la péréquation, d’autre part.

Cette réforme a été scindée en deux étapes par le Gouvernement.

La première étape, organisée par la loi de finances 2004, refonde l’architecture des dotations en simplifiant les circuits financiers et en dégageant une meilleure alimentation des dotation de péréquation.

La deuxième étape est centré sur l’aménagement des critères et des règles de répartition des dotations de péréquation.

La refonte de l’architecture des dotations concerne deux axes :

− la globalisation dans la DGF de plusieurs dotations (dont le 95% de la DGD) et compensations fiscales auparavant autonomes.

− La suppression du FNPTP et du FNP, remplacés par des dispositifs intégrés, soit à la DGF soit au budget de l’Etat.

La globalisation de plusieurs concours financiers au sein de la DGF conduit à la création d’une part régionale de la DGF et à la réorganisation de la DGF sur le même modèle pour les trois niveaux de collectivités (communes, départements, régions). Chaque niveau de collectivité bénéficie d’une DGF composée d’une part forfaitaire et d’une part péréquation. Les départements bénéficient aussi d’une troisième part qui regroupe certains concours particuliers.

La part forfaitaire progresse moins rapidement que la masse globale de la DGF, ainsi que le différentiel est affecté à la péréquation.

Pour les communes, l’ancien FNP est remplacée par une Dotation Nationale de Péréquation (DNP), qui permet de comparer toutes les communes entre elles, et par la Dotation de Solidarité Urbaine (DSU) et la Dotation de Solidarité Rurale (DSR), en comparant les communes au sein de groupes homogènes.

Les différentes charges résultants de la disparition du FNPTP sont affectés soit à la DGF soit directement au budget de l’Etat.

12) Les dotations régionales

12.1. La Dotation Globale de Fonctionnement (DGF)

La DGF est le pivot des dotations de l’Etat. Son indice d’évolution a été établi pour 2004 à +1,93%.
La loi des finances 2004 a créé en particulier une partie régionale de la DGF. Elle est réalisée par le regroupement de divers concours aux régions qui étaient précédemment autonomes19.

La DGF des régions est organisée en :
- une dotation forfaitaire ; elle correspond pour chaque région aux montants perçus en 2003 à titre de la suppression de la part salaire, de la taxe d’habitation et des droits de mutation à titre onéreux, ainsi que 95% de la DGD20. A compter de 2004 à ce montant de dotation forfaitaire est appliqué un taux de progression fixé par le comité des finances locales entre 75% et 95% du taux de progression de l’ensemble de ressources de la DGF21.
- une dotation de péréquation ; elle correspond à la reprise au sein de la DGF du Fonds de Correction des Déséquilibres Régionaux (FCDR). Le montant total de la dotation de péréquation est égal chaque année à la différence entre l’ensemble des ressources affectés à la DGF des régions et la dotation forfaitaire. Elle répartie au profit des régions qui ont un potentiel fiscal par habitant inférieur à 85% du potentiel fiscal moyen des régions et selon une formule qui implique le potentiel fiscal par habitant et le potentiel fiscal par kilomètre carré.

12.2. La Dotation Générale de Décentralisation (DGD)

Après la révision constitutionnelle du 28 mars 2003, le nouvel article 72-2 de la Constitution ab étendu le champ des principes de la compensation financière des transferts de compétences.

Désormais tout accroissement de charges résultant de l’attribution de compétences nouvelles donne lieu à compensation financière.

Quatre cas distincts ouvrent droit à compensation financière :

19 En particulier dans la DGF des régions sont basculées les compensations dues aux régions en contrepartie de la suppression de la part salaires de la taxe professionnelle et des parts régionales de la taxe d’habitation et des droits de mutation à titre onéreux, le Fonds de correction des déséquilibres régionaux et 95% de la dotation générale de décentralisation due à chaque région au titre de 2003.
20 Pour Alsace, Ile-de-France et Rhône-Alpes, c’est-à-dire les régions qui contribuaient au Fonds de Correction des Déséquilibres Régionaux (FCDR), ces montants sont diminués du montant des prélèvements effectués en 2003 au titre du FCDR.
21 Soit entre +1,4475% et +1,8335% pour 2004.
Cette ressource peut avoir la nature d’un impôt d’État transféré, une quote-part d’un impôt d’État, le FCFT (Fonds de Compensation de la Fiscalité Transférée) ou une allocation de DGD. La DGD progresse comme le taux d’évolution de la DGF.

− la modification, par voie réglementaire, des règles relatives à l’exercice des compétences transférées. Les modalités d’application sont les mêmes du premier cas.

− La création de compétences. La nature et le montant de la ressource sont déterminés par la loi.

− L’extension de compétences. La détermination est la même du cas précédent.

Selon la constitution et les articles L.1614-1 et suivants du CGCT la compensation financière des charges résultants des transferts de compétences doit être :

− Concomitante : pour assurer le transfert concomitant des charges et des ressources, les collectivités locales reçoivent, dés l’année du transfert, des ressources dont le montant est établi à titre provisionnel.

− Intégrale : les ressources transférées sont équivalent aux dépenses effectuées, à la date du transfert, par l’État au titre des compétences transférées.22

− Evolutive : les ressources transférées évoluent chaque année, dès la première année, comme la DGF23. Les dotations spécifiques destinées à compenser des charges d’investissements (DRES, DDEC) évoluent comme la FBCF (Formation Brut du Capital Fixe).

− Contrôlée : le montant des accroissements ou diminutions de charges est constaté par arrêté conjoint du Ministre de l’Intérieur, de la Sécurité Intérieure et des Libertés Locales et du Ministre du Budget, après avis de la CCEC.

− Mixte : les ressources transférées sont de nature fiscales et budgétaires.

Il existe une DGD « régions » et une DGD « départements ».

Après le 2004 la DGD a fait l’objet d’une transfert financier partial vers la DGF. En 2003 95% des crédits de la DGD ont été intégrés dans la dotation forfaitaire des départements et des régions pour 2004. C’est une opération qui participe à la création d’une DGF pour les régions.

22 En fonctionnement, ces ressources sont habituellement celles qui figurent au budget de l’État l’année précédant le transfert.

En investissement, le niveau de dépenses variant d’une exercice à l’autre, il a été admis d’établir l’évaluation des charges transférées sur la base de la moyenne actualisée des crédits précédemment ouverts au budget de l’État au titre des investissements exécutés ou subventionnées au cours de 5 voire 10 années précédant le transfert.

23 Article L.1614-1 du CGCT
Ainsi chaque département et région a perçu une DGD résiduelle égale à 5% de la DGD 2003, indexé et ajustée selon le cas échéant.

Cette réforme ne modifie pas le montant global des crédits affectés aux collectivités territoriales pour la compensation financière des transferts de compétences. La DGD reste la dotation utilisée pour financer les transferts des compétences et pour procéder aux ajustements nécessaires dans ce cadre.

### Les chiffres de la DGD en 2004

<table>
<thead>
<tr>
<th>DGD</th>
<th>Montant en millions d'euros</th>
</tr>
</thead>
<tbody>
<tr>
<td>Communes</td>
<td>248</td>
</tr>
<tr>
<td>Départements</td>
<td>209</td>
</tr>
<tr>
<td>Régions</td>
<td>341</td>
</tr>
<tr>
<td>Collectivité Territoriale Corse</td>
<td>245</td>
</tr>
<tr>
<td><strong>Totale</strong></td>
<td><strong>1043</strong></td>
</tr>
</tbody>
</table>

12.3. Autres dotations composants l’enveloppe normée

Au sein de l’enveloppe normée figurent, aux côtés de la DGF et de la DGD, divers dotations d’ampleur plus limité, telles que la DGE (Dotation Générale d’Equipement) des communes et des départements, la DDEC (Dotation Départementale D’Equipement des Collèges), la DRES (Dotation Régionale d’Equipement Scolaire), la DSI (Dotation Spéciale Instituteurs), la dotation élu local, et enfin la DCTP qui joue le rôle de variable d’ajustement.

− La **Dotation Générale d’Equipement (DGE)** est attribuée aux communes, à leurs groupements, aux départements, aux services d’incendie et de secours et aux centres de la fonction publique territoriale sous forme de subventions pour une opération réalisée par une commune ou un EPCI et au prorata des dépenses directes d’investissements effectuées dans l’année en cours pour les départements.

− La **Dotation Régionale d’Equipement Scolaire (DRES)** et la **Dotation Départementale d’Equipement des Collèges (DDEC)**.

La loi n° 83-8 du 7 janvier 1983 a transféré aux conseils régionaux la construction, la reconstruction, l’extension, les grosses réparations et le fonctionnement des lycées, d’établissements d’éducation spéciale, des écoles de formation maritime et aquacole, et des établissements d’enseignements agricole.

La transfert des compétences est intervenue le 1er janvier 1986.

En ce qui concerne le **fonctionnement** les transferts de compétences des établissements sont compensées dans le cadre de la DGD. La DRES

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24 Font: Ministère de l’Intérieur, de la Sécurité Intérieure et des libertés locales, 2004
compense les charges d’investissement pour les régions, tandis que a DDEC concerne les départements.

Le montant de la DRES est réparti selon des critères qui tiennent compte pour 60% de la capacité d’accueil des établissements et pour 40% de l’évolution de la population scolarisable. En outre un système de garantie assure à chaque région une attribution dont le taux d’évolution annuel ne peut pas être inférieur à 50% du taux d’évolution du montant total de la DRES. Le taux d’évolution de la DRES pour 2004 a été de 3,7% et donc aux régions a été assuré une progression de leur dotation par rapport à 2003 au moins égale à 1,85%.

12.4. Les Dotations hors enveloppe

− Le Fonds de Compensation pour la TVA : c’est un mécanisme de compensation de la TVA payée par les collectivités locales et leurs groupements au titre de leurs dépenses d’investissement. Le taux de compensation forfaitaire est déterminé par rapport au taux normal de TVA.

Les bénéficiaires de ce fonds, selon l’article L.1615-2 du CGCT sont les collectivités territoriales et leurs agglomérations, leurs régies, les organismes chargés de la gestion des agglomérations nouvelles, les SDIS, les CCAS et les CIAS, le CNFPT et les centres de gestion des personnels de la fonction publique territoriale, les agences des transports publics de personnes de Guadeloupe, de Guyane et de Martinique et enfin les communes et la collectivité départementale de Mayotte.

Les dépenses qui selon la loi peuvent ouvrir droit à une attribution du FCTVA sont, parmi les autres, les dépenses relatives aux travaux de lutte contre certains risques naturels, les dépenses des établissements publics de coopération intercommunale, les dépenses relatives à la Partition des dommages causés par les intempéries, les dépenses relatives à la construction ou à la rénovation des bâtiments destinés aux services de la justice, de la police et de la gendarmerie, les dépenses relatives à la construction d’établissements d’enseignement supérieurs sous tutelle de divers ministères, les dépenses d’équipement réalisées dans le cadre d’une convention publique d’aménagement, les dépenses relatives à des travaux réalisés sur le domaine publique routier de l’État ou d’une autre collectivité territoriale, les dépenses relatives à la construction d’infrastructures passives dans le cadre du plan d’action pour l’extension de la couverture du

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25 Articles 16 et 17 de la loi du 22 juillet 1983.
26 À l’exclusion de la collectivité territoriale de Corse qui bénéficie d’une compensation financière spécifique intégrée en DGD.
27 597.784.000 euro pour les autorisations de programme 582.053.000 euro de crédits de paiement (font Ministère de l’intérieur, de la Sécurité Intérieure et des Libertés Locales, 2004).
territoire par les réseaux de téléphonie mobile et enfin les dépenses relatives aux frais d’études, d’élaboration, de modifications et de révisions des documents d’urbanisme.

- **Le produit des amendes de police**: les collectivités locales bénéficient d’un prélèvement sur les recettes de l’État qui dérivent par le produit des amendes de police relatives à la circulation routière et qui correspond au produit des amendes forfaitaires dressées sur l’ensemble du territoire.

  Les sommes allouées doivent être utilisées soit au financement des opérations concernant les transports en commun, soit à des opérations relevant de la circulation routière.

  Le produit est réparti entre les communes et certains de leurs groupements au prorata des amendes émises sur le territoire de chaque collectivité.

  Dans le cas de région de l’Ile-de-France, la part du produit revenant au communes de la région est répartie de façon spécifique puisque seuls 25% de cette part revient effectivement aux communes, 25% étant versés à la région Ile-de-France et, enfin, 50% étant attribués au syndicat des transport d’Ile-de-France.

- **Autres dotations et subventions**: il faut rappeler enfin le Fonds de Solidarité des Communes de la Région Ile-de-France (FSRIF) et la Dotation de Développement Rural (DDR).

  Le Fonds de Solidarité des Communes de la Région Ile-de-France a été crée au but de contribuer à l’amélioration des conditions de vie dans les communes urbaines d’Ile-de-France supportant des charges particulières au regard des besoins sociaux de leur population sans disposer de ressources fiscales suffisants.

  Le dispositif assure une redistribution entre communes de la région par prélèvement sur les ressources fiscales des communes les plus favorisées au profit des communes les plus défavorisées.

  La Dotation de Développement Rural est réservée aux EPCI ruraux et destinée a favoriser le financement de projets de développement économique, social et touristique ou d’actions en faveur des espaces naturels.

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5ème
Les budgets des Régions en 2004

13) Les principales compétences transférées aux Régions avant le 2004

Les lois de décentralisation ont données plusieurs compétences aux régions dont certains représentent des enjeux financiers très importants : la formation professionnelle continue et l’apprentissage, les équipements scolaires di second degré, second cycle et les transports ferroviaires régionaux des voyageurs.

− La formation professionnelle continue et l’apprentissage : depuis le 1er juin 1983 les régions détiennent une compétence de droit commun en matière de formation professionnelle continue et d’apprentissage. Cette compétence a été élargie en 1993 par la loi quinquennale pour l’emploi30, à la formation qualifiante et à la formation préqualifiante des jeunes de moins de 26 ans, qui a pris effet à partir de 1er juillet 1994.

Par ailleurs la loi « démocratie et proximité » a transférée aux régions la rémunérations des employeurs d’apprentis, donnant lieu en 2004 à une dépense nouvelle significative31.

Les dépenses des régions pour la formation professionnelle continue, l’apprentissage et la formation des jeunes sont constituées principalement de charges courants32, concernant essentiellement les participations aux centres de formation professionnelle et la rémunération des stagiaires.

En contrepartie des charges transférés les régions ont bénéficiées du produit de la carte grise, ainsi que une dotation de fonctionnement de l’Etat.

− Les équipements scolaires de second degré, second cycle : depuis le 1er janvier 1986, les régions ont compétences en matière de d’équipements scolaires du second degré, second cycle (lycées).

Les crédits votés par les régions à ce titre ont représenté le 20,2%33 de leur budget total en 2004. L’essentiel des crédits du secteur scolaire, étant à

31 432 millions d’euro (font Direction Générale des Collectivités Locales, juin 2004).
32 2.605 millions d’euro en 2004, soit 29% du total des dépenses de fonctionnement régionales (font DGCL, juin 2004).
33 Soit 3.374 millions d’euro (font DGCL, juin 2004).
la charge de l’État la rémunération des enseignants, c’est l’investissement. C’est une dépense qui correspond à la rénovation et à la construction du patrimoine scolaire. Les transferts de l’État qui compensent ces charges sont la DGD en fonctionnement et la DRES en investissement.

**Montant des dépenses scolaires pour régions** (hors Corse)

Les transports ferroviaires régionaux des voyageurs : depuis 2002 pour toutes les régions de métropole sauf l’Île-de-France et la Corse s’est ajoutée la compétence, à fort impact financier, dans les transports ferroviaires régionaux des voyageurs.

L’ensemble des régions métropolitaines sont devenues les autorités organisatrices des services régionaux des voyageurs conformément à la loi « Solidarité et renouvellement urbain (SRU) » adoptée par le Parlement le 13 décembre 2003.


La loi SRU a prévu le transfert aux régions de la contribution antérieurement versée par l’État à la SNCF. Ce montant a été réévalué et calibré région par région sur la base des comptes régionaux certifiés de la SNCF. Elle prévoit également des ressources nécessaires au

35 Font DGCL 2004
36 La collectivité territoriale de Corse est compétente pour l’ensemble des équipements scolaires du 2ème degré (collèges et lycées).
renouvellement du parc de matériel roulant, ainsi qu’une contribution au titre des tarifs sociaux.

Les mouvements financières qui dérivent de cette nouvelle compétence sont très élevées.

Les dépenses prévues au budgets primitifs 2004 pour la régionalisation ferroviaire atteignent 2,33 milliards d’euro.37

Pour financer cette charge jusqu’au 2003 les régions disposaient d’une DGD spécifique, qui, comme la plupart de la DGD, en 2004 a été intégrée à la DGF.

14) Caractères des Budgets Primitifs des Régions en 2004

Pour 2004 les régions ont voté des budgets dont l’évolution, ±7%,38 est essentiellement guidée par la montée en charge des compétences transférée en matière de service ferroviaire de voyageurs et d’indemnisation des employeurs d’apprentis.

En dehors de ces deux secteurs l’évolution est de 3% en 2004.39

L’investissement régional prévu aux budgets primitifs 2004 affiche une de 2 à 3%. Une telle faible progression des budgets a déterminée une faible croissance de la pression fiscale directe des régions : le produit des impôts était prévu en augmentation de 3,4% par rapport au 2003, soit le rythme le plus bas depuis 1998. Seules deux régions ont relevé la tarif de l’impôt de la carte grise, le seul impôt indirect commun à toutes les régions.

En 2004 la capacité d’épargne des régions est prévu en baisse, sous l’effet plus rapide des dépenses que des recettes de fonctionnement, et du fait de l’inscription de nouveaux crédits (équivalents) en dépenses et en recettes.

Le recours à l’emprunt est en hausse en 2004, et il faut souligner le recours à une gestion active de la dette, avec un recours croissant au réaménagement de la dette et aux produits financiers de type « crédits à long terme renouvelable » (CLTR). Elle constitue une part considérable de l’appel aux capitaux extérieurs, soit 2,1 milliards d’euros contre 2,9 milliards d’euros de prêts classiques.

L’endettement régional est augmenté de 2,1% au 1er janvier 2004.

14.1. Les dépenses

Les dépenses réelles inscrites au budget des régions s’élèvent à 16,7 milliards d’euro, en croissance de 7,2% par rapport à 2003. Les régions gèrent le 12% des dépenses totales des collectivités locales.

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37 Font DGCL, juin 2004.
38 La font de tous les données qui suivent c’est la Direction Générale des Collectivités Locales/Département des Etudes des Statistiques Locales, juin 2004.
39 Le 2003 a été marqué aussi par le contexte des élection régionales.
C’est une croissance qui reste soutenue par rapport à celle entre 2002 et 2003 (+6,7%), mais moins forte à celle observée en 2002, année qui avait connu la généralisation des compétences visant à régionaliser les transports ferroviaires.

La croissance de 7,2% de 2004 s’explique surtout par les dépenses liés à la transfert de compétences en matière de rémunération des employeurs d’apprentis, que les régions financent à compter de 2004, et par l’augmentation des charges en matière de services ferroviaires régionaux des voyageurs sous l’effet de la hausse des péages du à Réseau Ferré de France.

Si l’on neutralise ces montants, la croissance des dépenses n’est plus que 3,0%.

14.2. Les dépenses de fonctionnement

Les dépenses de fonctionnement des régions métropolitaines devaient progresser en 2004 de 10,8%.

Ce forte croissance dépend par le même causes qui nous avons vu avant, c’est-à-dire rémunération d’apprentis, services ferroviaires régionaux. Mais en considérant que l’Etat compense ces charges avec des dotations financières, la croissance des dépenses est ramenée à +2,6% .

L’analyse de la structure du budget de fonctionnement révèle une fonction essentiellement d’intervention des régions.

![Structure de dépenses de Fonctionnement pour 2004](image)

En effet les dépenses propres à la gestion des services et à la dette représentent moins de 20% du total des charges courants, et les dépenses d’intervention plus de quatre cinquième.

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14.3. L’investissement

Les dépenses d’investissements, neutralisées par le gestion active de la dette, montrent une croissance de +3,3% en 2004. Ce progression modeste concerne soit l’investissement direct que l’investissement indirect.

La transfert de compétences en matière d’équipements scolaires du second degré a eu pour effet de confier aux régions un rôle d’investisseur direct pour la construction des lycées\textsuperscript{41}, et ainsi à partir de 1987 les dépenses d’équipement sont devenues une composante essentielle des budgets régionales.


La mise en place de la régionalisation du transfert ferroviaire a modifié la structure des investissements, en accroissant le total des dépenses d’investissement et les subventions d’équipement.

\textit{Structure de dépenses d’investissement pour 2004}

Globalement la dette représente 11% du total, les investissement directs 31% et les subventions versées 52%.

\textsuperscript{41}Avant la décentralisation les investissements étaient consentis presque uniquement sous la forme d’opération d’intervention.
14.4. Les domaines d’action des Régions

La nomenclature comptable actuelle des budgets opère une classification différente par investissement et par fonctionnement, et donc n’est pas simple analyser la structure des budgets régionales par domaine d’action.

Donc il faut regrouper les dépenses relatives à des domaines proches d’action en fonctionnement et en investissement.

**Fonctionnement**

**Investissement**
14.5. Les ressources des Régions

En 2004 les régions ont voté un montant de ressources de 16.645 millions d’euro, en croissance de 7,1% par rapport à 2003.

En 2004 la création de la DGF des régions et le passage de certains compétences fiscales dans cette DGF a modifiée la structure des recettes des collectivités locales.

La forte croissance s’explique surtout par l’impact des nouvelles dispositions, compensations du paiement d’indemnité aux employeurs d’apprentis et de la hausse des péages des SRV.

La fiscalité régionale, en revanche, augmente faiblement, et on assiste à une stabilisation de la pression fiscale directe et indirecte.

14.6. La richesse fiscale des régions

Selon les études du Direction Générale des Collectivités Locales le potentiel fiscal direct s’établi à 53 euros pour habitant en moyenne en métropole, hors Corse, et varie de 39 euros en Languedoc-Roussillon à 72 euros en Ile-de-France.

Le potentiel fiscal indirect est en moyenne de 24 euros, hors Corse, et varie de 20 euros par habitant en Nord-Pas-de-Calais à 26 euros en Rhône-Alpes, Champagne-Ardenne et Poitou-Charentes.

La pression fiscale globale\textsuperscript{42} est la moindre en Ile-de-France (0,61) et la plus forte en en Limousin (1,43).

14.7. Les transferts reçus

Les transferts reçus constituent 53\textsuperscript{43} des recettes totales des régions, et sont augmentées en conséquences de nouvelles compétences transférées par l’État.

Il faut rappeler qu’en 2004 la loi a réformé les dotations financières aux régions, en introduisant la DGF des régions. Même la dotation liée au transfert de compétences en matière de transports ferroviaires de voyageurs est incluse dans la DGF.

Le 90% des transferts provient de l’État, et les autres transferts sont reçus d’autres catégories de collectivités locales, ainsi que de l’Union Européenne.

14.8. L’endettement


\textsuperscript{42} L’indicateur est égale à 1 en moyenne et pour chaque région il est d’autant plus forte que la pression fiscal est élevée.

\textsuperscript{43} 8.874 millions d’euros en 2004.
L’annuité de la dette, augmentée de 3,4% par rapport à l’exercice précédent, absorbe 9,7% de recettes de fonctionnement, avec une variation de 4% à 19% selon les régions.

*Dette totale en euros par habitant (hors Corse)*

Sur les longs périodes la politique des régions en matière de financements pour l’accomplissement de leurs missions est très différente. Certains ont privilégié l’appel aux capitaux extérieurs pour le financement de leur effort d’équipement, d’autres ont choisi d’utiliser les moyens fiscaux, limitant le charge de la dette mais augmentant la pression sur le contribuable.

14.9. **Les régions d’outre-mer**

Les quatre régions d’outre-mer (Guadeloupe, Guyane, Réunion et Martinique) présentent des caractéristiques spécifiques, du fait de la particularité de leur statut et de leurs compétences.

Même entre elles les régions d’outre-mer présentent des différences soit en matière de niveau budgétaire qu’en ce qui concerne la progression annuelle.

La croissance du montant global des dépenses est en croissance de 4,6% par rapport à 2003 et correspond à un montant moyen globale de dépenses de 2,5 fois le montant constaté pour la moyenne métropolitaine.

Les dépenses de gestion courante, et notamment les frais de personnels sont plus élevés qu’en métropole.

La croissance des dépenses de fonctionnement est de 4,3% en 2004 (10,4% pour la métropole) et les dépenses d’investissement augmentent de 4,7% (+3,3% la métropole).

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44 La Corse dispose d’une compétence supérieure à celles d’autres régions, et donc d’un budget et d’une dette sensiblement différente.
En matière de fonctionnement, les transferts versés constituent la part la plus importante des dépenses (69%) et se stabilisent en 2004 (+1,9%) avec une diminution des charges financières (-5,2%).

S’agissant d’investissement, les subventions augmentent fortement (+32,2%), avec un effort d’équipement en diminution de 7,5% par rapport à 2003.

La structure des recettes ressemble à celle de la métropole : pour moitié des recettes ou des compensations fiscales, composée pour plus d’un tiers de transferts reçus et pour moins d’un cinquième des emprunts.

Une des spécificités c’est la composition des ressources fiscales : 83% est constitué par une fiscalité indirecte particulière composée pour l’essentiel par la taxe sur le carburant, l’octroi de mer et la taxe sur les rhums.

La fiscalité totale des régions d’outre-mer est prévue en augmentation de 11,6% entre 2003 et 2004 et le recours à l’emprunt est en baisse de -13,9%.

Enfin la dette totale des régions d’outre-mer, supérieure de 56% en euros par habitant à celle de la métropole, recule de 9% entre 2003 et 2004. Mais cette baisse concerne 3 des quatre région d’outre-mer (Guyane -18,0%, Martinique -42,9%, Réunion -25,6%) seule Guadeloupe faisant une croissance de 3,8%.

**Les territoires d’outre-mer**
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GERMANY
Public administration innovation: budget, accounting and control systems. Europe and the Mediterranean: comparison and avenues for interaction

Prof Dr. D. Budäus (Hamburg Germany)

1) Structure and Legal Framework

Germany is a federal republic. Including the local level, there are three levels of government:

- 1 Federal government (Bund);
- 16 State governments (Länder);
- 14,000 Local authorities (Gemeinden).

Federal administration and Land administrations are not connected in organisational terms and there is by no means a formal vertical relationship between these levels. They have their own budgets. Local authorities are separate entities too with local self-government, but their budgets are supervised by the Länder.

The financial situation of local authorities strongly depends on the respective Land and the Federation.

German governmental budgeting and accounting at all three levels of government are regulated by law and not by any non-governmental standard-setting body. Such bodies do not exist in Germany, not even as advisory bodies. The legal framework is a hierarchical system comprising different regulations:

- Chapter X (Finance) of the Basic Law (Grundgesetz [GG]);
- Budgetary Principles Act of 1969 (Haushaltsgrundsatzgesetz [HGrG]),
- Local Government Acts (Gemeindeordnungen [GO])

\(^1\)The paper gives a short overview of the current practice in public sector budgeting and accounting in Germany and furthermore describes the main reform endeavours, including the federal, the Länder and the local level. The descriptions are based on the Country Study Germany within the CIGAR-Project (Budäus, D., Behm, C., Adam, B., Country Study Germany, in: Lüder, K., Rowan, J. (eds.), Budgeting and Accounting in Europe, Frankfurt 2003, ppp.), empirical research results and actual discussion in public sector praxis.
- Municipal Budgetary Acts of 1972 – 1974 (Gemeindehaushaltsverordnungen [GemHVO]); and
- Federal, State and Municipal Regulations specifying the stipulations of the Budgetary Acts.

2) Budgeting

The budget at State level is the basis for administrative management of financial resources and public performance. It forms the legal basis for the annual financial management of the government and its administrative departments and entities.

The budget is to fulfill different functions and principles which are codified or non-codified.

It must be formally balanced. All revenues must balance all expenditures. Materially, revenues from borrowings are not allowed to exceed the expenditures for investments provided for in the budget estimates except in situations in which a disturbance of macroeconomic equilibrium is to be averted. In practice, the rule for a balanced budget is materially ineffective because it only regulates the limit for borrowings, but does not commit the use of revenues from borrowings to finance investments; these revenues can also be used to finance consumption.

In Germany, budgets do not contain any information on the political programme of the government nor do they provide information on operating results and social effects (output and outcome information). The aim of budgets is resource control.

In addition to the budget a financial report (Finanzbericht) has to be set up by the Minister of Finance. In this report, information has to be provided about the actual status and the development of financial management in connection with the development of the national economy. Additionally, the Federation and the Länder are obliged to embed their annual budgets in separate five year financial plans. This medium-term financial planning at the State level serves as a tool to meet budget needs and economic purposes.

3) Accounting and Reporting

The main function of financial and budgetary accounting is the documentation of receipts and payments as well as providing evidence for the cash balance and changes thereof. It also provides documents for financial reporting purposes. Therefore, governmental accounting is primarily aimed at assessing stewardship and compliance with the budget.

The function of financial and budgetary reporting is to provide administrative control. This refers only to the regularity of the budgetary management and
excludes the economy and efficiency of budgetary management as well as the achievement of political objectives.

Traditional governmental accounting in Germany is a variant of cash accounting. The bookkeeping technique used is therefore the single-entry bookkeeping method (cameralistic method of bookkeeping), recording transactions twice (at different points in time) on only one account.

The chart of accounts for the public sector is different from the chart of accounts for the private sector. The subheads of the chapters in the budget are classified according to functions and objects. The system of classification by functions and objects is hierarchically structured and classifies revenues and expenditures into ten main categories, which are further subdivided into categories and subcategories.

The statement of assets and liabilities has to show the monetary assets and capital market debt at the beginning and the end of the current fiscal year and the changes therein. In practice, property, plant and equipment is not evaluated in monetary terms; they are only documented in asset registers in respect to their quantity. Consequently no comprehensive statement of assets and liabilities can be found in practice at the federal and Land level.

Overall, traditional budgeting and accounting in Germany is input-oriented, cash-based and aimed at meeting the budgetary control needs of the legislature. At all levels of government, no consolidated financial statements exist.

Differences between the federal and Land level on the one hand and the local level on the other hand are not fundamental, but mostly only technical in regard to the traditional budgeting and accounting system. Thus, the local budgeting, accounting and financial reporting documents differ only in term, form and content from the respective documents on the federal and Land level. The bookkeeping system consists of two books: the journal (Zeitbuch), which records transactions chronologically, and the ledgers (Sachbuecher), which record the transactions according to the budget structure. The local accounting system includes at least three ledgers: the first for the operating budget and account, the second for the capital budget and account, and the third for transactions not included in the budget, e.g. deposit/suspense and advance ledger (haushaltsfremde Vorgaenge).

4) Reform Endeavours

In contrast to the local level, the reform endeavours at the national and Land level are focused on extending the information of the traditional cameralistic system by cost and performance accounting information (erweiterte Kameralistik). The key players of budgeting and accounting reform at the federal level and at the Länder are the Ministries of Finance and, in addition, the Ministries of Interior.
The vast majority of the staff in these ministries prefer - if at all - a very cautious piece meal change of the actual system. Only the Land Hesse has turned its administration to a fundamental quantum change.

Piece meal change refers to a reform, characterized by more flexibility in running the budget, and additional information in comparison to the traditional budgeting and accounting system. This reform is called 'optimised or extended cameralties'. The focus of reform is concentrated on developing systems of cost accounting and performance measurement. The present status is 'optimised and extended' by additional cost and performance information. In 1998, the Budgetary Principles Act was reformed to improve flexibility and efficiency in preparing and executing the budget and generally to strengthen cost consciousness. Following from this, a lot of different pilot projects have been started during the last five years. The attempt to measure public performance and outputs was concentrated on documenting activities and results by 'product ranges'. But Cost accounting often is not integrated and harmonized with the performance of a public entity.

At federal level, cost accounting projects and attempts to define output-oriented budgets and product catalogues can be observed. In 1996/1997 a consulting firm (Arthur D. Little) was commissioned to develop a 'Standardised Cost and Performance Accounting System' for the Ministry of Finance. Meanwhile, this system is the framework for implementing cost accounting systems and also serves as a textbook for the education of the staff in cost accounting in the entities at the federal level. The system operates especially in subordinated authorities (nachgeordnete Behörden) of the Federation.

At the Länder level, initiatives to define products and outputs can be observed in nearly all Länders.

The first fundamental approaches at state(Länder) level is existing since ca 2000 in Hesse, since 2004 in Hamburg, Bremen and Northrhine-Westfalia too. But In summary, the reform situation at State level is similar to a patchwork of different projects with different stages of development and different significance for management efficiency and economy in public sector.

At local level the reform is much farther and it is much better organized. Meanwhile exist three new concepts of a fundamental reform to accrual budgeting and accounting at local level, implemented in Northrine-Westfalia, Hesse and Lower Saxony and in future in local authorities of some other Länders taking over one of these concepts. Their main objective is to test a new budgeting and accounting system, comprising of the following elements:

- Output and accrual based budget;
- Accrual based financial accounting and reporting;
- Management (cost and performance) accounting.
The three conceptual frameworks will be the basis of further evaluation as they are the ones around which the discussion is currently focused. The first one is the 'New Local Budgeting, Accounting and Reporting System' (*Neues Kommunales Haushalts- und Rechnungswesen* [NKH/NKR]), which is already implemented in Wiesloch and is currently being updated and implemented in Uelzen and Dannenberg. The second concept is called 'New Local Financial Management' (*Neues Kommunales Finanzmanagement* [NKF]); it was developed from 1999 until 2000 in cooperation between five local governments in Northrhine-Westfalia, which are in different stages of implementation. The third concept is the 'New Local Accounting, Reporting and Steering System' (*Neues Kommunales Rechnungs- und Steuerungssystem* [NKRS]), which was developed from 1999 until 2002 in cooperation between three local governments in Hesse.

Concerning the components of financial statements, there is a consensus across the three concepts of NKR, NKF and NKRS. The financial statements consist of three components:
- Statement of financial position
- Statement of financial performance
- Cash flow statement

The current discussion status for accrual budgeting and accounting are as follows:
- Regulations about the form and content of the new budgeting system have been discussed without having reached any consent yet;
- There are different views concerning the structure of the new budget (organizational structure or structure according to products) and concerning the rules for a balanced budget;
- There are different views concerning the valuation of assets in the opening statement of financial position (but a consensus in regard to the valuation in case of acquisition of new assets)
- Consensus in respect to the structure and form of the cash flow statement, which will be based on primary data collection and set up according to the direct method.

In summary the reform endeavours at the local level have been successful. However, *Länder*, that prefer to leave an option for the local governments between the cameralistic system and an accrual system struggle with the disadvantages of the option model.

Overall, the reform process is developing slowly. From the beginning of the first pilot project (Wiesloch in Baden-Wuerttemberg in 1993) until the expected completion date (2004) of the draft for a new local budget law, nearly 10 years will have passed. Therefore, it can be estimated that the date of implementation of the new local budgeting and accounting system in all local governments will be no
sooner than 2015. But beyond this the reform endeavours at the local level will have an encouraging effect on the Länder and federal level, although no reliable estimate can be given as to when the reform process on these levels will be finished.
## Appendix 1: Reform Initiatives at Federal and Land Level

<table>
<thead>
<tr>
<th>State</th>
<th>Reform Initiatives</th>
<th>Time schedule</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal State</td>
<td><strong>Only in individual entities:</strong> Extended cameralistics by cost accounting</td>
<td>No time schedule exists</td>
</tr>
<tr>
<td></td>
<td>Output-oriented budget by products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility of Budget</td>
<td></td>
</tr>
<tr>
<td>Bavaria</td>
<td><strong>Currently pilot projects, planned on whole-of-government level:</strong></td>
<td>No deadline for finishing the reform process</td>
</tr>
<tr>
<td></td>
<td>Cost and Performance accounting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility of budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics</td>
<td></td>
</tr>
<tr>
<td>Baden-Wuerttemberg</td>
<td><strong>Planned on the whole-of-government level:</strong></td>
<td>Implementation by 30th April 2004</td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cost accounting</td>
<td></td>
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<tr>
<td></td>
<td>Flexibility of budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No Output-oriented budget by products</td>
<td></td>
</tr>
<tr>
<td>Berlin</td>
<td><strong>Planned on the whole-of-government level:</strong></td>
<td>No deadline for finishing the reform process</td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics by cost accounting</td>
<td></td>
</tr>
<tr>
<td>Brandenburg</td>
<td><strong>In pilot projects:</strong></td>
<td>On whole-of-government level: 2006</td>
</tr>
<tr>
<td></td>
<td>Cost accounting</td>
<td></td>
</tr>
<tr>
<td>Bremen</td>
<td><strong>On whole-of-government level:</strong></td>
<td>Already implemented in budget 2002/2003</td>
</tr>
<tr>
<td></td>
<td>Global and product-oriented budgets, supplemented by cost information</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility of budget</td>
<td>No time frame</td>
</tr>
<tr>
<td></td>
<td><strong>Planned:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Accrual Accounting on the whole-of-government level</td>
<td></td>
</tr>
<tr>
<td>Hamburg</td>
<td><strong>On whole-of-government level:</strong></td>
<td>Already implemented in individual departments</td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics by cost accounting</td>
<td></td>
</tr>
<tr>
<td>Region</td>
<td>Details</td>
<td>Timeline</td>
</tr>
<tr>
<td>-----------------</td>
<td>-------------------------------------------------------------------------</td>
<td>-------------------</td>
</tr>
</tbody>
</table>
| Hesse           | Output-oriented, global budget  
Accrual accounting                                                      | 2008              |
| Mecklenburg     | **In individual entities:** Cost and performance accounting            | Decision about  
future reform activities in 2004/2005 |
| Western Pomerania|                                                                         |                   |
| Lower Saxony    | **In pilot projects:**  
Extended cameralistics by cost accounting  
Flexibility of budget  
Output-oriented budgeting by products and programs | Implementation on  
whole-of-government level by 2006  
Implementation on  
whole-of-government level by 2008 |
| Northrhine-Westfalia | **Planned on whole-of-government Reform Project started in 2004:**  
Flexibility of budget cost accounting – accrual budgeting  
Output-oriented budgeting by products  
Accrual accounting | No time schedule |
| Rhineland-Palatinate | **Planned on whole-of-government level:**  
Extended cameralistics by cost accounting  
Output-oriented budgeting by products  
**In individual departments:** Output-oriented budgeting by programs | No time schedule |
<p>| Saarland        | <strong>In individual departments:</strong> Extended cameralistics by cost accounting | No time schedule |</p>
<table>
<thead>
<tr>
<th></th>
<th>Flexibility of budget</th>
<th>Output-oriented budget by products</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Saxon</strong></td>
<td><strong>In 7 pilot projects:</strong></td>
<td></td>
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<tr>
<td></td>
<td>Output-oriented budgets by products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics by cost accounting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Currently no time schedule available</td>
<td></td>
</tr>
<tr>
<td><strong>Saxony-Anhalt</strong></td>
<td><strong>In individual departments extended schedule</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cameralistics by cost accounting; Flexibility of budget</td>
<td></td>
</tr>
<tr>
<td><strong>Schleswig-Holstein</strong></td>
<td><strong>In individual departments:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics by cost accounting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Output-oriented budgeting by products</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Planned on whole-of-government level, no information on time frame</td>
<td></td>
</tr>
<tr>
<td><strong>Thuringia</strong></td>
<td><strong>In pilot projects:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Flexibility of budget</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Output-oriented budgeting</td>
<td></td>
</tr>
<tr>
<td></td>
<td><strong>Only in individual departments:</strong></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Extended cameralistics by cost accounting</td>
<td></td>
</tr>
<tr>
<td></td>
<td>No time frame</td>
<td></td>
</tr>
</tbody>
</table>
## Appendix 2: Comparison of budgeting reform at local level

<table>
<thead>
<tr>
<th>Criteria</th>
<th>NKH (NKR)</th>
<th>NKF</th>
<th>NKRS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Conceptual Framework</td>
<td>Yes, included in conceptual framework</td>
<td>Yes, included in conceptual framework</td>
<td>No complete concept, only framework principles; observed details are self-provided by pilots</td>
</tr>
<tr>
<td>Degree of flexibility</td>
<td>Several options are available from the concept, the local authorities can decide individually</td>
<td>Net budgeting, virement of all expenses at product group level</td>
<td>Not prescribed in concept, local governments decide individually</td>
</tr>
<tr>
<td>Components of the budget</td>
<td>Local Budget Law Budgeted Statement of financial performance at whole of government level</td>
<td>Local Budget Law Budgeted Statement of financial performance at whole of government level</td>
<td>Local budget law Budgeted Statement of financial performance at whole of government level</td>
</tr>
<tr>
<td></td>
<td>Budgeted cash flow statement at whole of government level</td>
<td>Budgeted cash flow statement at whole of government level</td>
<td>Budgeted cash flow statement at whole of government level</td>
</tr>
<tr>
<td></td>
<td>Budgeted Statement of financial performance at departmental level</td>
<td>Budgeted Statement of financial performance at departmental level</td>
<td>Budgeted Statement of financial performance at departmental level</td>
</tr>
<tr>
<td></td>
<td>Budgeted cash flow statement at departmental level</td>
<td>Investment plan</td>
<td>Investment plan</td>
</tr>
<tr>
<td></td>
<td>Plan of established positions</td>
<td>Plan of established positions</td>
<td>Plan of established positions</td>
</tr>
<tr>
<td></td>
<td>Investment Plan</td>
<td>Several Annexes</td>
<td>Several Annexes</td>
</tr>
<tr>
<td></td>
<td>Several Annexes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Definition of balanced budget and components included</td>
<td>Surplus/deficit from ordinary activities, excluding extraordinary result</td>
<td>Net surplus/deficit for the period, consisting of surplus/deficit from ordinary and extraordinary activities</td>
<td>Net surplus/deficit for the period, consisting of surplus/deficit from ordinary and extraordinary activities</td>
</tr>
<tr>
<td>Structure of the Budget</td>
<td>Budget is</td>
<td>Budget is</td>
<td>Budget is</td>
</tr>
<tr>
<td>budget</td>
<td>structured according to organizational structure, but structure according to products is a possible alternative under special circumstances</td>
<td>structured according to products</td>
<td>structured according to organizational structure</td>
</tr>
<tr>
<td>--------</td>
<td>---------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------</td>
<td>-----------------------------------------------</td>
</tr>
<tr>
<td>Use of output indicators within the budget</td>
<td>Yes, but not for all outputs</td>
<td>Yes</td>
<td>No</td>
</tr>
</tbody>
</table>
The case of the
Federal Republic of Germany

di Anna Galdo

Forewords

The following paper aims at giving a general overview of the budget accounting, auditing and control in the Federal Republic of Germany and a brief description of the implemented and envisaged reforms. It concludes that the German budget system can be generally considered as efficient, given the involvement of all the branches of the state, the full respect of the rule of division of powers, and the large autonomy of local governments. However, the German accountability system, which is based on the cash rather than the accruals principle, does neither provide sufficient cost-result information, nor is able to measure public sector efficiency. While some moves were made by states and communities to introduce elements of accruals accounting, against the standard required by legislation these efforts are supplementary accounting practices and therefore unlikely to be adopted on a general scale within the present legal system.

Thus the present German budgeting system places little emphasis on policy outcomes. Legislation focuses on parliamentary control of inputs as opposed to budgetary appropriations on a programme or activity basis. In contrast, since the 1980s, many countries, such as Britain, Northern European countries, New Zealand and the US, have relaxed input controls and reoriented budget systems to focus on results. In exchange for greater flexibility in budget management, in this approach decentralised managers are now more responsible for achieving results from a relatively small number of government programs. Accordingly, budget laws have been changed to simplify the structures of budget appropriations approved by Parliament.

Accrual accounting is supplementary to an outcome-based budgeting approach in that it makes the full cost of government activities more transparent, thereby improving decision making by using this enhanced information.
1) Accountability and control systems in force

With its accountability, control procedures and mechanisms, the budget system of the Federal Republic of Germany is generally regarded as efficient. Through its Budget Committee, parliament is involved at an early stage (after adoption by the cabinet) in the detailed planning of departmental budgets and grants discharge to the federal government after the end of the fiscal year on submission of the annual statements of account and the audit reports of the SAI. Parliament is thus involved in the budget cycle from start to finish. As authority exercising external financial control, the SAI occupies a prominent position and is involved in all phases of the budget cycle or is informed directly by the FMF.

The outstanding features of the system are that spending is very precisely planned and tight restrictions are imposed on the redirection of expenditure. Increases in spending are invariably subject to the consent of the FMF. Extensive auditing is conducted by the SAI and in concluded by the granting of discharge by parliament. The system has shown itself to be effective and no immediate reforms are planned.

The legal framework of governmental accounting comprises:

- Chapter X (Finance) of the Basic Law;
- Federal and Laender Budgetary Acts (Bundeshauushaltsordnung und Landeshaushaltsordnungen);
- Chapter 6 of the Local Government Acts (Gemeindeordnungen);
- Local Government Budgetary Ordinances (Gemeindehaushaltsverordnungen) and
- Federal and State regulations specifying the stipulations of the Budgetary Acts (Verwaltungsvorschriften zur Bundeshauushaltsordnung und den Landeshaushaltsordnungen).

In accordance with the arrangement of the budget system, the budget is subdivided into departmental budgets, chapters and titles. The departmental budgets contain the funds appropriated for the ministries. They are subdivided into chapters for the ministry, general appropriations, subordinate authorities etc. Each chapter is subdivided into titles, which are the smallest subdivisions in the budget. The federal budget comprises approximately 950 revenue titles and 5,450 expenditure titles, grouped together in chapters and departmental budgets.

Together with the budget bill the federal government submits:

- the financial plan (scope and nature of expected revenue and expenditure over a five-year period);
- the finance report (state of public finances and their probable development);

and every two years the subsidies report (financial aid survey).

These titles are subject to ex-ante control in the budget preparation procedure and are audited by the Supreme Audit Authority (SAI) at the close of the fiscal year.
The budget process in Germany goes through three different phases in which control and accountability play a part:

1. Budget preparation procedure
2. Budget execution
3. Rendering and auditing of accounts

1.1 Budget preparation procedure, ex-ante control

The Federal Ministry of Finance (FMF) is responsible for the budget preparation procedure. The procedure begins with a circular to all government departments to submit their bids / estimates to the FMF. The FMF checks the bids /estimates on the principles of need, conformity with regulations and economy. Ex-ante control of the bids / estimates submitted by government departments is carried out by separate, specifically assigned divisions ("twinned" divisions) headed by the bids are subsequently negotiated with the departments at technical level on the basis of the above principles. These twinned divisions are independent of the departments and are subordinated through the Budget Directorate-General to the executive level of the FMF (Finance Minister and State Secretaries). Most of the staff in this area are officials. Any issues that cannot be settled at this level are the subject of further negotiations at directorate or ministerial level.

When adopted by the cabinet, the draft budget is submitted to the Bundestag and the Bundesrat. After the first parliamentary reading, the draft budget is referred to the Budget Committee of the Bundestag, which takes charge of the subsequent deliberations. The Budget Committee scrutinises all the estimates and, where necessary, submits proposals for amendment. The decisions of the Budget Committee are prepared by a number of committee members (rapporteurs and co-rapporteurs for each departmental budget, selected both from the parliamentary groups of the governing and the opposition parties). The rapporteurs and co-rapporteurs discuss the draft budget with representatives of the supreme federal authorities concerned and of the FMF and the Supreme Audit Institution (SAI).

Proposals submitted by the rapporteurs form the basis of deliberations in the Budget Committee and are adopted in most instances. A detailed debate is generally held in the Budget Committee if the rapporteurs and co-rapporteurs are unable to reach agreement on specific points or if an issue is of such fundamental significance as to require to be dealt with by the Budget Committee itself.

The comments of the specialised committees and of the Bundesrat are taken up in the deliberations of the Budget Committee. Issues that cannot be finally disposed of when the departmental budgets are considered by the Budget Committee are shelved until the "settlement" sessions (of which there are generally two). These are usually held in November, and mark the conclusion of the Budget Committee's deliberations on the draft budget. The FMF submits documentation for decisions to be taken in the settlement sessions combining all the deferred issues and other matters on which it considers a decision necessary (the so-called settlement items).
This is followed by the second and third readings of the draft in parliament, during which minor amendments are made, and the final debate in the Bundesrat.

1.2 Budget execution

The basis of execution is the budget as established by the budget statute, authorising the administration to effect expenditure and to enter into expenditure commitments. Detailed provisions on budget management are contained in a circular distributed by the FMF to the supreme federal authorities.

The role of the Federal Ministers in the management of budgeted funds

Each federal minister is responsible for conducting the affairs of his or her department; accordingly, the minister is also responsible for the management of the departmental budget (departmental principle). The same applies to the heads of those supreme federal authorities that are not ministries.

Each department or agency appoints a budget officer who is directly responsible to the minister or the head of the agency for the management of budgeted funds. The budget officer is responsible for preparing the documents required for financial planning and for the draft budget as well as for executing the budget. In addition, the budget officer is entitled to be involved in all measures of financial significance. The budget officer conducts correspondence, negotiations and discussions with the FMF and the SAI, unless he or she has delegated this task.

The budget officer is responsible for the orderly execution of the departmental budget. As the budget is too complex for one person to handle, the budget officer will delegate the management of relevant parts of the budget to the responsible areas. In this way, entire chapters of the budget are assigned to be managed by subordinate agencies. All managers of budgeted funds must ensure that they are able at all times to give information on the state of execution of their budgets.

As the departments manage their respective areas of activity independently and there is no duplication of tasks, programmes and measures can for the most part be clearly attributed to the individual departments. The Federal Budget Code stipulates in Section 17 (4) that expenditures and authorisations for future commitments (AFCs) relating to a common purpose are not to be budgeted under different titles. Hence there are only very few cross-departmental measures for which part appropriations are entered in the budgets of the departments concerned. The reporting on this is not governed by budget procedure and is agreed and undertaken in different ways.

The role of the FMF in the execution of the budget

While each ministry is responsible for its "own" departmental budget, the general aspects of budget management going beyond the concerns of any one department are the responsibility of the FMF. It is the task of the FMF to monitor the state of budget execution and where necessary to intervene, for instance by
placing a block on expenditure in accordance with Sec. 41 of the Federal Budget Code, if developments in the revenue or expenditure situation deviate from the course set out in the financial plan. This overall responsibility is reflected in the requirement that the departments must seek the consent of the FMF for any deviation from the budgeted figures.

Management of appropriated funds and authorisations for future commitments in the budget.

The cardinal rule for government departments in executing the budget is the principle of efficiency and economy set out in Sec. 7 of the Federal Budget Code. This means that before government departments spend money or have recourse to authorisations for future commitments (AFCs) under their budget they are obliged to examine in each case whether, with regard to the reason for and the amount of expenditure, spending money or incurring a commitment for future expenditure is both objectively necessary and necessary at the time in question. Moreover, in accordance with Sec. 34 (2), second sentence, and Sec. 34 (3), appropriated funds are to be administered in such a way "that they suffice to cover all expenditure falling under the various purposes indicated." This is intended to ensure, wherever possible, that excess and extrabudgetary expenditure does not occur.

Blocks on appropriations in the budget

Recourse to appropriations in the budget (expenditure and AFCs, established positions and other positions) may in individual cases be restricted (blocked) for important reasons. Such blocks may be imposed by law, by a note in the budget, by a cabinet decision, by the FMF after "having consulted" the responsible federal minister.

The blocks must be lifted by the FMF before recourse may be had to the blocked appropriations. On application by the department concerned, the FMF will lift the block only when the conditions necessary for recourse to the appropriations have been met. In some cases, provided by law, the consent of the Bundestag (Budget Committee) must be obtained.

One may distinguish in principle two categories of block according to the purpose.

- Blocks intended to effect savings in the current or in future fiscal years. These blocks invariably have the result of rendering the blocked appropriations permanently undisposable.
- Blocks imposed for reasons other than effecting savings. These blocks may be imposed if certain conditions for recourse to appropriations have not yet been met when such appropriations are budgeted. The effect of such blocks is merely to impose a provisional limitation on access to the appropriations.

Excess and extrabudgetary expenditure
Unexpected occurrences in the course of budget execution may establish a compelling need to exceed budget estimates in specific titles. In the event of such need, Art. 112 of the Basic Law (Constitution) authorises the FMF as the government department responsible for the budget to grant applications for excess or extrabudgetary expenditure submitted by departments responsible for administering funds (referred to as the "emergency authorisation powers" of the FMF).

In its judgement of 25 May 1977 (BVerfGE 45,1), the Federal Constitutional Court (BVerfG) set out the requirements that must be met if applications for excess and extrabudgetary expenditure are to be granted:

- The need must be unforeseen.
- The need must be a compelling one.
- The expenditure must be an objectively unconditional necessity that cannot be postponed.

If it is unlikely that the legislative bodies will be able to grant the authorisation required by law in time, the above-cited judgement by the BVerfG calls for the FMF to consult the legislative bodies before taking a decision in accordance with Art. 112 of the Basic Law. However, the BVerfG leaves it to those bodies to decide whether to exempt the FMF from this requirement where the consultation procedure does not appear to be practicable.

This exemption is given in the form of a provision in the fourth sentence of Sec. 37 (1) BHO that a supplementary budget will not be required if the excess expenditure does not in any one case go beyond an amount to be specified in the budget statute or if legal obligations have to be met. In the budget statute for 2003 (HG 2003), the ceiling for excess expenditure is set at € 5 m.

The HG 2003 introduced a new provision on the consultation procedure for excess and extrabudgetary expenditure. In accordance with Sec. 7 (1) HG 2003, the Budget Committee must be notified before obtaining the consent of the Federal Ministry of Finance in the case of excess and extrabudgetary expenditure exceeding the expenditure ceiling or in the case of legal obligations exceeding € 50 m. Exceptions are permissible only for compelling reasons. This provision reinforces the involvement of parliament.

In accordance with Sec. 37 (4) BHO, the Bundestag and the Bundesrat must be notified of excess and extrabudgetary expenditure every three months; in cases of fundamental or considerable financial importance, this notification must be made immediately.

These notification requirements ensure that the application of Art. 112 of the Basic Law is subject to constant parliamentary control. They afford the legislative bodies the opportunity to comment on decisions taken by the FMF in accordance with Art. 112 GG and if necessary to admonish the government to adopt a more restrictive approach in future.

Excess and extrabudgetary authorisations for future commitments (AFCs)
The provisions of Art. 110 of the Basic Law relate only to expenditure, but not to authorisations for future commitments (AFCs). It is clearly stated in this provision that an excess or extrabudgetary AFC may be granted by the FMF only under the same conditions as apply in the case of excess and extrabudgetary expenditure (unforeseen and compelling need).

There is no need for legislation on the adoption of a supplementary budget if in any one case the total amount of excess and extrabudgetary AFCs does not exceed the ceiling to be specified in the budget statute or if legal obligations have to be met.

Close of the fiscal year

The FMF is obliged to submit to the Bundestag annual accounts covering all revenue and expenditure as well as assets and debts. In an appropriate circular, the FMF calls on the supreme federal authorities to render accounts for their respective departmental budgets as at the close of the fiscal year. The FMF then draws up the annual accounts (budget and property accounts) for the Federation.

The budget account incorporates a wealth of detailed information in addition to the statement of departmental revenue and expenditure, subdivided by titles, ranging from the cash and budgetary accounts of the Federation to the statement of borrowed funds.

The property account shows the assets of the Federation in the form of money and material assets including financial claims and accounts receivable. It also shows the revenue and expenditure of the special funds and the annual statements of account of federal undertakings.

The annual accounts are submitted to the Bundestag, the Bundesrat and the Supreme Audit Institution at the end of the first quarter of the following year. The SAI is provided with additional detailed information on the property account.

Role of the judiciary

Specific prescriptions relating to the German budget system are contained in the constitution. Subject to the admissibility criteria deriving both from the Basic Law and the Law on the Federal Constitutional Court, compliance with these prescriptions is subject to verification by the Federal Constitutional Court. However, not least with reference to the principle of the separation of powers, it does not follow that in exercising such control the Federal Constitutional Court is entitled to act as budget legislator and itself to take decisions on the budget; rather, its function is to ensure that in taking their decisions budget legislators do not overstep the boundaries laid down in the law.

Moreover, the prescriptions contained in the Basic Law on the system of federal financial equalisation, which largely determines the distribution of revenue within the federal state and thus the budget situation of the individual political subdivisions, are also subject to the control of the Federal Constitutional Court.

A decision by the Court in 1999 may be cited as an example, in which it found that the system of federal financial equalisation had to be reorganised in line with revised
principles; a further example is the action currently being brought by the Land of Berlin before the Federal Constitutional Court to have a state of budget emergency declared with the aim of receiving supplementary grants from the community of federal states.

1.3 Rendering and auditing of accounts

Overview of procedure

The auditing of federal government accounts also comprises the examination of its budget and financial management. It is conducted in two stages:

- administrative control by the Supreme Audit Institution (SAI) and its audit offices;
- political control by the parliamentary Audit Committee, a subdivision of the Budget Committee of the Bundestag.

This is followed by the granting of discharge to the federal government by the Bundestag and the Bundesrat.

Auditing by the Supreme Audit Institution

Once the FMF has submitted the budget and property accounts after the close of the fiscal year, the accounts are audited by the SAI and its audit offices. This takes the form of an external financial control. The outcome of the audits (audit results) are submitted to the departments concerned for comment within a period of two to four months. Audit results of fundamental importance or of considerable financial impact are also submitted to the FMF. The complete audit results are submitted as comments in the form of an annual report to the federal government and to parliament.

Parliamentary auditing of accounts and discharge

The detailed parliamentary auditing of accounts is undertaken by the Audit Committee on the basis of the audit comments of the SAI. The Audit Committee is a subdivision of the Budget Committee. Whereas the Budget Committee is principally responsible for the authorisation of budgeted funds, the function of the Audit Committee is that of budget control. All members of the Audit Committee are at the same time members of the Budget Committee, so that the same group of persons is responsible both for authorising and for controlling the budget, thus ensuring a high degree of control effectiveness.

The Audit Committee holds meetings at which the comments of the SAI are dealt with in the presence of representatives of the relevant department, the SAI and the FMF. At the conclusion of the audit period, the Audit Committee submits a recommendation for decision through the Budget Committee to the plenary session of the Bundestag.

In the course of a separate discharge procedure, the Bundestag and the Bundesrat take a decision independent of each other on whether to grant ex-post
discharge to the federal government for the fiscal year in question. Bundestag and Bundesrat may refuse to grant discharge to the federal government. However, this has not yet occurred in the history of the Federal Republic of Germany.

2. Financial control

2.1 The Supreme Audit Institution, external financial control

The German Supreme Audit Institution (SAI) is a supreme federal authority. As an independent body of government auditing it is subject only to the law. The German SAI is responsible for auditing federal budget funds. The German SAI is an institution of its own kind that is neither part of the legislative, judicial nor executive branches of government. It has an independent status. This is a special feature distinguishing external audit bodies from the internal audit bodies that are integrated into the various bodies and agencies that they are designed to audit.

At the beginning of 1998, nine Regional Audit Offices were set up which were designed to optimise and enhance government audit work. At the same time the former pre-audit offices were abolished. The Regional Audit Offices are subordinate to the German SAI and are subject to the German SAI’s oversight and technical guidance. The audit offices in Germany provide audit coverage of the overall financial management of the Federation and of the Federal states including their separate property funds and federal undertakings.

The German SAI and the audit courts of the sixteen constituent states of the Federal Republic are autonomous and independent institutions of government auditing. This fact precludes any subordination to one another. Nevertheless, the fiscal systems of the Federation and of the states are intertwined to a degree necessitating close co-operation between the audit institutions. Where the German SAI and any State Court of Audit share auditing responsibilities, they may perform joint audits, or they may agree to delegate audit functions.

Government audit work is assigned to the various audit divisions and units on the basis of an annual schedule of responsibilities. Apart from what is set forth in the schedule of responsibilities audit groups may be formed to deal with an audit mission if audit purposes so require. Composed of specialists from different audit units, they tackle new audit priorities at short notice - and quite beyond the routine schedule of audit work – enabling the German SAI to respond flexibly to changing audit challenges.

The schedule of responsibilities which determines the distribution of functions within the German SAI is drawn up by the President in consultation with the standing committee of the Senate in accordance with statutory procedure.

One major purpose of this procedure is to ensure full audit coverage. The schedule of responsibilities is based on audit units which are grouped together to form the audit divisions. The tasks assigned to individual audit units usually address organisational units or legal entities (e.g. government departments or
bodies incorporated under federal public law). Alternatively, audit functions may reflect certain revenues or expenditures across various departments (personnel, public works covering one or more government departments, taxes) or specific funds (ERP Separate Property Fund). Furthermore, there are also units for cross-sectional audit work that examine certain issues across the board, without regard to organisational units or specific budget items. Finally, there are some audit units that deal with legal or administrative issues (such as co-ordination and drafting of the annual report to be adopted by the Senate).

Scope of auditing

The German SAI examines
- the financial management of the Federation, its separate property funds, and federal undertakings;
- public corporations established under federal law (e.g. the Federal Employment Services), including those federal enterprises of the same legal form;
- social security institutions established under federal or state laws, receiving grants from the Federal Government or where the Federation has entered into guarantee commitments;
- the activities of the Federation in private-law enterprises of which it is a shareholder (with an audit approach following commercial principles, such as Telekom AG and Deutsche Bahn AG).

The German SAI may also carry out examinations of bodies or other third parties outside the federal administration where these receive or handle federal funds (e.g. the constituent states, local authorities, or grantees).

The audited bodies may comment on the shortcomings found and outline their views on how to address the problems stated. At a later stage in the procedure the German SAI follows up on the action taken in response to the audit recommendations made. In accordance with applicable legislation the results of these audit procedures are not made public.

Reporting

Each year, the German SAI submits an annual report on major audit findings and audit recommendations to both Houses of the German Parliament and to the Federal Government. This report is also used by Parliament to approve the accounts for preceding years.

The annual report also highlights saving potentials or options for increasing revenue. The audit recommendations are discussed by the Public Accounts Committee and usually most of them are supported by the Committee. The observations are not limited to the year for which approval is sought. Most of them deal with topical issues that are still open for remedial action.

In October each year, the annual report is presented to the public at a press conference in Berlin by the German SAI’s President. About two years later the
German SAI issues an audit impact report stating whether and how the audit recommendations have been supported by Parliament and what remedial action has been taken.

In addition to annual reporting, the German SAI may at any time inform the legislative bodies and the Federal Government of matters of particular significance. Recent examples of this have been the reports about the federal participation in the construction of Munich's new airport, information processing security in computer centres of the federal administration and the refund of turnover tax on inputs in connection with the establishment of family partnerships of farmers and forest owners, the organisational restructuring of the Farmers’ Pension Insurance and the taxation of revenues from the sale of securities.

The German SAI has also been given the task of making recommendations on the basis of its audit findings and of advising the bodies under audit and Parliament. Thus the German SAI helps enhance public sector management and performance.

Advisory functions

The German SAI may give advice in advance of decisions being made. Such advice is designed to help prevent shortcomings. Sometimes this may prompt legislators to revise or amend the law.

The Bundestag and, above all, its Appropriations Committee rely on the German SAI’s expertise and advice especially in connection with major government projects and programmes that pose a high risk to value for money. This function of the German SAI to provide testimony in a timely manner on current government issues is given more and more emphasis.

A wide array of issues are addressed, ranging from the reliance on external IT experts, federal funding provided to the EXPO 2000 world exhibition, the Federal Armed Forces Special Air Mission Unit, federally funded railway net extension to the awarding of licenses for restaurants on Federal Motorways. Other topics include the status of cost and performance accounting within federal departments, the feasibility study of the Transrapid and Metrorapid magnetic levitation tracks.

It is mainly when the budget estimates are prepared that the German SAI makes its audit experience available. It participates in the budget negotiations between the Federal Ministry of Finance and the departments and provides testimony to Parliament in the course of preparatory talks with the rapporteurs of the Appropriations Committee and during that Committee's deliberations.

Audit procedure

In the implementation phase of the budget, audit emphasis is on financial management. Audit findings may lead to adjustments at a stage early enough for spending cuts to become effective during the ongoing financial year.

The German SAI audits receipts, expenditures and commitment authorisations, the federal assets and the federal debts. In addition, the audit mandates provides for
audit of all government programmes that have financial implications even if expenditures have not yet been incurred (such as the contract awarding procedure for a management consultant in the context of a privatisation project). However, it is always a prerequisite for audit that a decision has been made. Particularly large-scale programmes comprise a multitude of individual decisions any of which may be examined separately. This approach allows the German SAI to detect and correct mistakes at an early stage.

The German SAI is free to determine the timing and nature of audit work. It may conduct field work. It has the right of access to any pertinent information, records and vouchers it requires for audit work.

Audit matters are selected when drawing up annual audit plans. The German SAI is free to set audit priorities, arrange for sample audits, or leave accounts unaudited. A major purpose of audit programming is to provide a reliable overview of federal financial management and to avoid any audit gaps to the extent possible. When selecting audit topics the German SAI relies on any information available during audit work but also on petitions from citizens or on issues reported by the public media.

In addition the German SAI bases its selection on a systematic analysis of major government programmes having a major financial impact or presenting a high audit risk. Audit requests submitted by Parliament or its committees are met to the extent possible.

The SAI may take account of internal control reports in order to evaluate areas of risk as it deems fit. It also does systematic evaluations of internal control systems.

The SAI has issued audit rules and standing orders that govern its audit work. Apart from that it also applies the INTOSAI auditing standards.

The German SAI is authorised by law to rely on external expertise as it deems fit.

The German SAI is authorised to demand from all bodies under audit any information or documents that it may consider necessary for audit purposes.

It is notified whenever the executive branch introduces any regulation, provision or rule which has financial implications. This is to ensure that the German SAI is kept informed of public sector activities which may warrant immediate attention and may provide an informed opinion. Furthermore, where accounting and auditing issues are involved, the authorities must first consult or seek the approval of the German SAI.

In its audit of regularity and compliance the German SAI examines whether the laws, the budget, any pertinent regulations, provisions and rules have been observed.

Performance audits under the criteria of economy, efficiency and effectiveness are carried out to ensure that good value for money is obtained. Auditors pay special attention to the staff resources employed and to the effectiveness of public sector management. Effectiveness audit is becoming increasingly important to see
as to whether the desired objective has actually been achieved; and as to whether adequate programme evaluation has been carried out. This applies particularly to large-scale government programmes or projects.

The German SAI sets out the audit findings in management letters, which are sent to the audited bodies. These are required to submit their comments on the audit findings and conclusions within a time frame set by the German SAI.

The German SAI may also communicate audit findings to other government bodies and the Appropriations Committee. In addition, significant audit findings of a basic nature or that have major financial implications are brought to the attention of the Federal Ministry of Finance.

The German SAI must not judge the merits of policy decisions, but it may examine and report on the rationale for and the effects of decisions made. While the German SAI is not authorised e.g. to second-guess the political expedience of specific subsidies, it may check and report on compliance with applicable laws, regulations and rules and on achievement of the desired impact. However, the German SAI may not make assessments as to whether certain subsidies should be paid or not. The German SAI may examine and report on its findings as to whether in a case under review applicable procedures have been complied with and whether the subsidies granted have actually achieved the desired impact.

Since the German SAI cannot compel compliance with its recommendations, it needs to rely on the persuasiveness and credibility of its arguments. Apart from that the parliamentary Appropriations Committee and the Public Accounts Committee help ensure that the problems stated in the German SAI’s annual report are effectively addressed. During the past years, these committees endorsed more than 90 per cent of the audit findings following deliberations in which the responsible German SAI Members provided testimony.

Government departments, generally represented by the Federal Minister or the Permanent Secretary of State or other senior staff, are held accountable by the Public Accounts Committee for any mismanagement.

2.2 Internal financial control and internal auditing

As regards financial control, a clear distinction must be made in the budget system of the Federal Republic of Germany between ex-ante and ex-post control. Ex-ante control is comprehensive and is integrated in the budget preparation procedure, whereas internal auditing is carried out ex-post in the form of random self-checks on the management of budgeted funds. These functions are performed by separate agencies in the administrative organisation.

Ex-ante control in the budget preparation procedure

In public budgets in the Federal Republic of Germany, ex-ante control of expenditure is integrated in the budget preparation procedure. The budget negotiations are concerned with checking, negotiating and determining the items making up each title which are subject to disposition in the execution of the budget.
Efficiency analyses are conducted in advance in the case of large-scale projects and expenditure in the nature of investment. The basis for these analyses is Section 7 of the Federal Budget Law, which stipulates that the principles of efficiency and economy are to be observed and appropriate efficiency analyses are to be conducted.

Taking account of the requirements of each case, the most simple and economical method is to be used in conducting efficiency analyses. Procedures are available having specific or general economic application. The procedure to be selected will depend on the type of measure, the objective to be attained with that measure and the effects the measure is likely to have.

Procedures having specific economic application in general, discounted cash flow methods (e.g. net present value method) are to be used for measures having only negligible benefits and costs that may consequently be left out of account. Alternative procedures used for routine applications (e.g. cost comparison, tender comparison) may also be employed for measures with only negligible financial impact. Procedures having general economic application efficiency analyses having general economic application (e.g. cost-benefit analysis) must be employed for measures whose general economic impact must be taken into account.

Each department or agency appoints a budget officer who is directly responsible to the minister or the head of the agency for the management of budgeted funds; in supreme federal authorities this will be the head of the budget directorate, who answers to the minister for the orderly execution of the budget and can be outvoted only by the minister or the minister's appointed deputy. The budget officer is responsible for preparing the documents required for financial planning and for the draft budget as well as for executing the budget. In addition, the budget officer is entitled to be involved in all measures of financial significance. The budget officer conducts correspondence, negotiations and discussions with the FMF and the Federal Court of Audit, unless he or she has delegated this task.

Ex-post control by internal auditing

Internal auditing is carried out on a decentralised basis in all departments in the form of a self-check. In terms of organisation, internal auditing facilities are frequently concentrated in a division with line function in the authority, generally within the central directorate. However, the head of the authority may opt to install internal auditing as a unit with staff function in proximity to the executive level. Internal auditing is thus organisationally and functionally dependent on the authority and does not give out any audit opinion on the accounts rendered by the government. Internal auditing duties are carried out by officials and public-service employees appointed in accordance with the recruiting rules of the relevant authority (application, grade average, assessment centre).

The type and extent of the audit is determined by the heads of the respective department or subordinate authority in a plan drawn up a plan to give the main points of emphasis of ex-post control. The subjects of control are administrative expenditure and administrative activity, which are audited at random both during
budget execution and ex-post. Following the audit criteria of the SAI, expenditure is examined to ascertain whether it is correct, expedient and economical. The control methods include the means at the disposal of internal auditing to carry out checks on the current management of funds at any time. Checks on risk management and IT management have also been envisaged but do not as yet play any major part.

The outcome of internal auditing is reflected in internal audit reports submitted to the head of the department, comprising the audit mandate, the result and suggestions for action. The internal audit unit itself prepares the final version of the report in accordance with the prescribed main points of emphasis.

No adjustments to the report are made at executive level. As this constitutes an internal control the result of which is not made public, internal auditing has no consequences for the executive level of the department. If sufficient grounds are established in the course of the internal audit to suspect a criminal or disciplinary offence, a copy of the report is forwarded to the appropriate authorities. Any misconduct at executive level in the departments must be made public in the course of external control by the SAI and by parliament.

3. Major reforms over the last five to ten years

Traditional government accounting in Germany, as in most other Western countries, is incomplete and lacks transparency, it does not provide any information on the efficiency of administrative action nor does it provide incentives for cost conscious behaviour of civil servants. In addition, it is not appropriate for rendering an account on a government’s financial management to the general public.

These long-time latent weaknesses of the traditional budgeting and accounting system became obvious in the early 1990s for the following reasons:

First, due to remarkable continuous budget deficits in the 1970s and 1980s and as a consequence of German unification, public debt and interest expenditures reached a critical level by the mid-1990s. The “debt-to-GDP” ratio of 60% met the upper limit set by the Treaty of Maastricht for the member states of the Economic and Monetary Union (EMU). This financial situation, which meant an unacceptable shift of financial burden to future generations, became a political issue and forced governments, among others, to think about measures aimed at increasing public sector efficiency. For this purpose, the accounting system has to produce information on the efficiency of government action (i.e. on outputs and costs) and both budgeting and accounting have to provide incentives for (more) efficient behaviour of legislators and bureaucrats. The availability of an appropriate budgeting and accounting system is crucial for achieving improvements in public sector efficiency.

Second, the idea of a New Public Management (NPM) developed and implemented in New Zealand in the 1980s also gained ground in Germany’s public sector. The concepts of privatisation, corporatisation, and devolved and business-
like public management seemed particularly appropriate to achieve a leaner administration and the badly needed improvements in efficiency. But such public management reform was again not conceivable without reform of the budgeting and accounting system which replaced the input-oriented and cash-based traditional system with an output-oriented and accrual-based new system.

Third, over the last decades the peripheral sector of many German governments (particularly larger local governments) has constantly grown through the creation of semi-autonomous government entities and government corporations at the expense of the core sector. The municipal workforce employed in the peripheral sector had grown to 50% of the total municipal workforce. The creation of legally independent but government-owned organisations became even more of an issue in the 1990s as an NPM modernisation strategy and as an attempt of governments to shift debt and deficits to those entities that do not belong to the public sector in the national accounts. This drifting apart of the two sectors of government and the “crowding-out” of tasks from the core sector into the peripheral sector has been accompanied by often unintended autonomy of the corporatised entities caused by insufficient and inappropriate control. In respect of accounting, the core sector and the peripheral sector of government represent “two different worlds”. The core sector is characterised by traditional line-item budgeting, cash-based accounting and single-entry bookkeeping. In the peripheral sector, on the other hand, budgets are more global (i.e. consisting of a few lines; in the extreme, under net-budgeting there is just one appropriation per entity), accounting is fairly close to commercial (accrual) accounting and the double-entry bookkeeping technique is used. As a consequence, it is impossible to blend the accounts of the two sectors in a meaningful way and thus, whole-of-government financial statements which provide information on a government’s overall financial position and changes thereof cannot be prepared. This issue of deriving useful summary financial information from the accounts has become more severe with the increasing financial significance of the peripheral sector.

In the last ten years only relatively minor reforms have been undertaken:

- Enhanced flexibility of budget legislation
- Product budget pilot project
- Replacement of pre-audit offices by internal auditing

**Enhanced flexibility of budget legislation**

Introduced for the first time in the 1998 federal budget, enhanced flexibility was applied across a broad front in 117 chapters comprising about 2,500 titles and an expenditure volume of approximately 13.7 bn. In the federal budget for 2003, flexible management applies in 107 chapters with an expenditure volume of about 15.3 bn. This is equivalent to 6.2 % of total spending. The new flexible management instruments relate in general to administrative expenditure in the narrower sense, i.e. personnel and non-personnel expenditure by the federal authorities. Such generalised arrangements are not appropriate for the programme
expenditure (for instance on transport and communications, social security, subsidies) that makes up the bulk of spending in the federal budget. For this, specific budget arrangements are required that are tailored to suit the type of programme in each individual case.

Appropriate provisions in the respective budget statute provide scope for the flexible management of administrative expenditure in the current fiscal year and beyond. Budget execution is made flexible by the admission of extensive eligibility for virement within individual expenditure categories without departing from the parliamentary prescriptions. Moreover, eligibility for carry-over of the expenditure coming under flexible budget management is ensured by allowing uncalled budgeted funds to remain available beyond the relevant fiscal year where there is an objective requirement to do so.

Nonetheless, flexible budget management does not obviate the need to observe essential budget principles: the principle of a yearly budget and the yearly rendering of accounts are crucial in ensuring timely verification that the intentions of parliament have been complied with.

Establishing annual benchmark data for government action is of great importance for economically active persons and for the financial markets.

The budget as broken down into separate titles conforms to the requirement that all public budgets should be transparent and comparable.

The principle of general coverage, i.e. that all revenue serves as cover for all expenditure, must at all events be observed.

Product budget pilot project

Within the framework of a pilot project which was proposed in the late 90s by the Budget Committee of the Bundestag and for which the FMF has since been centrally responsible, the "product budget" pilot project was launched in 2000 with. Since then product budgets for a number of authorities have been appended as an annex to the budget proper. The aim is to supplement the present budget procedure by adding an output-oriented presentation of the use of funds to render the actual use of resources by the administration more transparent. The data for these product budgets are generated from the system of cost-result accounting.

The product budget shows the performance of an authority in product areas and groups and assigns to these both quantities and costs derived from cost-result accounting. Thus for the first time the product budget is a performance-oriented budget presentation.

Six pilot authorities are at present involved in the project. These are the Press and Information Office of the federal government, the Federal University for Applied Public Administration, the Federal Statistical Office, the Federal Office for Motor Traffic, the Federal Railways Agency and a part of the customs administration. Five product budget tables of the total of six pilot authorities are already backed up by the requisite data in the government's draft budget for 2004. This will provide parliament with an additional source of transparency and
information, enabling delegates to assess in considerably greater detail the work done by these authorities.

As far as can be assessed at present it will take a lengthy period of time for the goal-directed use of this new steering instrument to be integrated into the budget preparation procedure.

Replacement of pre-audit offices by internal auditing

The pre-audit offices were replaced by internal auditing as from 1 January 1998. Before that, personnel had been installed in the departments and authorities to check the current management of funds and to carry out ex-post control of data. These personnel were functionally subordinated, and were obliged to report, to the SAI. As this form of auditing produced very little by way of results in the course of the years, internal auditing was introduced as a self-check focusing on specific points of emphasis. The reform promotes the "two person" principle within the departments, and the control function stems in part from the very fact that specific transactions can be checked at any time. Setting main points of emphasis in the audit reports enables internal auditing to target specific areas, thus going far beyond the checking of warrants and the plausibility of calculations.

4. German accountability system and New Public Management

The accounts of the core governments are kept on a modified cash basis. All revenues and expenditures are recorded twice, when due and when collected or paid, respectively. The amount of revenues and expenditures due but not received and collected at the end of the fiscal year (which is the calendar year) are shown in the accounts as receivables and payables. The bookkeeping method used is single entry called ‘cameralistic accounting’. Article 114 Basic Law requires the Minister of Finance to “submit to the Bundestag and the Bundesrat annual accounts for the preceding financial year covering all revenue and expenditure as well as assets and debts”. Main component of the annual accounts is the line-by-line statement of actual revenues and expenditures whereas the ‘statement’ of assets and liabilities is only an incomplete annex containing just monetary assets and capital market debt. With the entities of the peripheral sector of government the situation is different: most of them use commercial accounting which means it is on an accrual basis, in technical terms it is double-entry bookkeeping and a set of financial statements consisting of a complete balance sheet and an income statement is produced. In cases where the peripheral entities have to present a budget, it encompasses a budgeted income statement as well as a budgeted cash flow statement. This means that budgeting is also accruals based.

Main objective of the 1997 amendment to the Budgetary Principles Act (Budget Law Development Act of 22 December 1997) was providing governments with more flexibility in budget management and thus strengthen cost-
consciousness in using scarce financial resources. This was expected to be achieved by extending the possibility of transferring funds between budget lines and of carrying forward unused appropriations as well as by opening an option for introducing cost accounting in government “where appropriate”.

Section 33a now permits a government to shift its financial accounting system to an accruals base but again without abandoning the former cash based system. Thus, the budget and accounting reform approach underlying the latest amendments of the Budgetary Principles Act can be called an “additive approach”. That is, it opens up new options only on the condition of meeting the old requirements.

Whereas some of the governments tightened the provision on cost accounting by transforming the option into a requirement, in some cases even for all government entities, the options for budget globalisation and accrual accounting were not adopted by all governments, among them the federal government.

The stance of the federal government, particularly the Minister of Finance so far has been that neither output-oriented and accrual based budgeting, nor accrual financial accounting, are necessary and beneficial for sound governmental financial management. Increased budget flexibility and the introduction of cost accounting in appropriate governmental entities are considered sufficient to remedy the weaknesses of traditional budgeting and governmental accounting.

In December 1996, the Federal Ministry of Finance commissioned a consulting firm to develop a “Standardised Cost and Performance Accounting System” for the federal government. The system was presented in July 1997 and it now serves as a framework for setting up cost accounting systems for governmental entities, as well as “textbook” for the education of government officials in cost accounting. The present situation in the federal government can be described as a patchwork of cost-accounting systems of varying degrees of sophistication, at different stages of development with different significance as a management tool. These systems are “stand-alone” systems, i.e. they are not linked to the budget and the budgeting process.

Accountability of the political subdivisions

Article 109 of the Basic Law states that the Federation and the Länder are autonomous and mutually independent in their budget management. Preparation, management, rendering of accounts and control of the budget in the Federation and the Länder are governed by the framework conditions set out in the Law on Budgetary Principles. The Federal Budget Code and the budget codes of the Länder which regulate the budget system are derived from the Law of the Budgetary Principles. Hence Federation and Länder conform to common principles in relation to the budget system, and beyond that they are independent. The Länder submit reports to the Federation solely for the preparation of financial statistics. These reports are not used for control purposes but serve only the collection of data.
After the 1997 reform to the Budgetary Principles Act most of the Länder governments prefer a similar approach as the federal government. This means that the existing cash based budget is enhanced by output information, and the cash based financial accounting is supplemented with cost and performance information for either all or just selected core government entities.

An exception is the government of Hessen, which decided in 1998 to convert its traditional input and cash based budgeting and accounting system to an output and accruals based system for all governmental entities and the whole-of-government over a ten year period.

Now, with a time lag of several years, other Länder have either decided to add to the traditional cash accounting system an accruals based financial accounting system and submit a balance sheet and an operating statement (Bremen, Hamburg) or expressed the intention to do so (Northrhine-Westphalia).

But, apart from everything else, it must be kept in mind that there still is a legal obstacle for more fundamental reforms such as the Hessian case. The Budgetary Principles Act as of today does not allow Länder governments to completely abandon traditional budgeting and accounting, even the Hessian approach formally keeps within the legal limits by defining the accruals and output based budget and the accruals based financial statements as “appropriate information and control devices” as provided for in section 6b Budgetary Principles Act and by deriving the demanded cash based information from the accruals based budgeting and accounting systems.

Irrespective of the type of reform, Länder governments are pursuing, they are all in a phase of running pilot projects of different kinds with often poor conceptual preparation, insufficient coordination, and struggling with software problems.

In 1998 a subcommittee “on local government budget law” was set up by the Standing Conference of the Länder Interior Ministers charged with specifying the legal provisions for an output and accruals based local government budgeting and accounting system to be included in the Municipal Budgetary Acts. It submitted and passed amendment guidelines for an output and accruals based budgeting and accounting system as well as for an updated cameralistic accounting system in 2003. Is now up to the Länder to amend their local government budgeting and accounting law accordingly. In doing this, the individual Land can make the new output and accruals based system an obligatory requirement or just an option for the municipalities.

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1 Only the Land Hessen pursues a different and more radical reform path: it is implementing a completely new accruals and output based accounting and budgeting system. Bremen and Hamburg have also decided to introduce an accruals based financial accounting system but without abandoning the traditional cash based accounting and budgeting system.
Northrhine-Westphalia and Lower Saxony intend to have their law amended by the end of 2004 demanding all local governments to shift their budgeting and accounting systems over a multi-year transition period to an accruals base.

In summary, the legal preconditions for accrual budgeting and accounting in local governments will shortly be available so that the governments are able to substitute an accruals based system for their traditional cash based system without being forced to continue in one way or the other with the old system.

Pilot projects aimed at developing a conceptual basis for governmental accrual accounting and accruals and output based budgeting, initiating the necessary software developments, gaining experience with the new approach and possibly modifying it and not least providing an impetus for amending local government accounting law were set up in selected cities and counties of several Länder, particularly Baden-Wuerttemberg, Hessen, Northrhine-Westfalia and Lower Saxony.

The city of Wiesloch (Baden-Wuerttemberg) was the first one to run such a pilot project in 1994, followed by Hessian (1998), Northrhine-Westfalian (1999) and Lower Saxon local governments (2001).

Even though the approaches for an accruals and output based accounting and budgeting system developed in the pilot projects differ in detail, they share basic features such as:

- double-entry bookkeeping,
- accruals based financial accounting,
- accruals based financial reporting comprising individual and consolidated balance sheets, operating statements and cash flow statements,
- accruals based budgeted operating statements and cash flow statements and
- budgeted outputs.

Conclusions

Not all Länder will mandatorily require the accrual system to be used and the others will allow to do the transition over a period of several years, it is difficult to predict when the reform will come to an end, very likely not in this decade.

On the other hand the reform towards accrual accounting and budgeting in local governments, has reached a stage where is seems irreversible. Some Länder intend to allow their local governments to opt for either an updated cameralistic accounting system or an accrual accounting system. Since this causes problems for intergovernmental comparability of financial statements, for finance statistics and for fiscal equalisation, according to Klaus Lüder ², the updated cameralistic accounting alternative is not very likely to survive in the long run.

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² State and Perspectives of Governmental Accounting Reform in Germany, Klaus Lüder, www.oecd.org
On the Federal level too the obvious conclusion with regard to accounting reform is likely to be a shift of the accounting system of the core sector of government to an accrual basis and the measurement focus of the statement of assets and liabilities from net monetary debt to economic resources. Such a change would also meet the request for more complete and transparent financial reporting of governments. This move might as well imply a re-orientation of the qualification structure within ministries with more emphasis on economic rather than legal issues as is presently the case.

The legalistic approach of setting accounting and budgeting standards, the far reaching (legal) harmonisation of financial management across all levels of government and the slow pace of amending the relevant laws are the main contextual obstacles averting fast implementation of new approaches.

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ITALY
Budget Reform in the Italian State

Dr. Carlo Conte*

The implementation of a large-scale reform plan for the administrative apparatus and the restructuring of public finance – aimed at achieving the objectives of monetary and economic convergence set out in the Maastricht Treaty – are the main aims of economic and financial policies adopted by Governments from 1992 to the present day.

The results obtained in restructuring public finance are clear even to non-specialists and are the fruit of differing and convergent financial policies, undertaken with extreme rigour and seriousness, dictated by urgent internal needs and conditions that participation in economic and monetary union imposed and still demand today. To this end, a series of regulations have been passed aimed at rationalising public administration and pursuing criteria of increased efficiency and effectiveness in administration.

The main regulatory actions of the ‘90s include:

- New regulation in administrative procedure, a provision of Law 241/1990;
- Organisational restructuring put into effect by Law 241/1992;
- Health reform, put into effect by Legislative Decree 902/92;
- Reform of public management and the relationship between politics and administration brought about by Legislative Decree 29/93 (which also formed the basis for a new public finance and management control model);
- Social Security reform, brought about by Law 335/1995 (the Dini Law);
- Finance Reform of Legislative Decree 77/95;

* Director General of the State Accounts Board
- The introduction of decentralisation measures, administrative simplification and the modification of access rights with Law 59/1997 and 127/1997;
- The State Budget Reform set out in Law 94/97 and put into action by Legislative Decree 279/1997;
- Adopting the Internal Stability Pact, introduced for the first time by the Finance Laws of 1999, which involves bodies in respecting macroeconomic parameters established by the stability Pact and developed in the EMU.
- Control reforms established in Legislative Decree 286/99;
- Governmental organisation reforms and the new organisation of the Presidency of the Council, made operative by Legislative Decrees 300 and 303 in 1999.

This large-scale reform and modernisation programme in the Italian public sector produced notable results in the field of public finance, and allowed Italy to respect European conditions and continue to restructure public finance, especially in reducing the relationship between public debt and GDP.

<table>
<thead>
<tr>
<th>Anni</th>
<th>Rapporto %</th>
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<tbody>
<tr>
<td>1997</td>
<td>120,3</td>
</tr>
<tr>
<td>1998</td>
<td>115,3</td>
</tr>
<tr>
<td>1999</td>
<td>114,9</td>
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<tr>
<td>2000</td>
<td>110,6</td>
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</tr>
<tr>
<td>2005</td>
<td>100,9</td>
</tr>
<tr>
<td>2006</td>
<td>98,6</td>
</tr>
</tbody>
</table>

Trends in public debt in relation to GDP

Fonte: Programma di Stabilità dell’Italia (aggiornamento novembre 2003)

In this context, the most important moment of this ongoing reform process was the modification in the structure of the State budget, which began with the approval of Law no. 94 of the 3rd April 1997, and its implementation with Legislative Decree no. 279 of the 7th August 1997.
Before these reforms, other actions had been taken to rationalise regulations in force; on the one hand they tried to find more appropriate decision-making instruments for public finance operation and, on the other, for the formative and deliberative execution of finance laws and to harmonise and coordinate parliamentary regulation, in order to interrelate and render compatible the responsibility of the Government and the prerogatives of Parliament within institutional and constitutional limits.

Law no. 362/1988 had, in fact, been redefined: the programming scenario on which to base the budget policy (The Economic – Financial Programming Document) and a new slimmed-down version of the finance laws; the introduction of related measure, as an organic system of putting into action the finance programme; the regulation of special funds, with the inclusion of so-called negative provisions; and the rules of financial cover.

Even the 1988 reform laws only marginally affected the structure of State finance, the classification of its postings and its methods of spending management, even though the original set of regulations – in article 11 – gave the Government the power of finance reform, of its structure and the connected explanatory documents.

Only later, in the State Budget reassessment process, an initiative of the 5th Budget Commission was implemented. This was an experimental study on a different State budget structure aimed at improving clarity and comprehensibility, allowing it to be examined and decided on by parliament. The study was assisted by the Senate Budget Office and the Technical Commission for Public Spending.

This proposal was the basis for further in-depth studies by the State Accounts Board, which was given the task of preparing a new, experimental version of accounting records. The State Accounts Board presented two different plans for budget structures. One was based on a functional classification of spending consistent with a recategorisation of the state budget in “operative units”, according to new administrative and functional criteria (about 300 items). The other, which was eventually selected, was basically founded on an economic – administrative classification.

This trial formed the basis for defining the new budget structure approved by Parliament with Law 94/1997.

According to the regulations it contained, key elements of the new budget can be defined as:

a) a basic forecast unit, which appears as an aggregate on which political decision is concentrated and which constitutes a new elementary budget entity that groups revenue or spending of the same type and is determined with reference to a specific homogenous area of activity in which the institutional activity of each Ministry is divided. It therefore constitutes a unit of parliamentary vote, in that the
subdivision into services (that these units make up) serves only for management, control and account rendering

b) the basic forecast unit is then referred to the centre of administrative responsibility, i.e. the management office that the system of financial resources is assigned to, expressed by the basic forecast units decided by Parliament.

Political decisions no longer rest on the numerous basic units (the 6000 services that make up the budget) but on the aggregate whole (about 1050, of which 900 are spending and 150 are revenue) that show homogenous values for institutional activities of an economic nature.

c) institutional missions express the sector’s public policies through the public budget, and derive from administrative action that achieves political aims.

A double budget plan clearly emerges: a political budget for parliamentary decision and a more detailed administrative budget for management.

The former, divided into forecast units which correspond to centres of responsibility (generally outlined in the offices of general management level), has decisional, transparency, obligation and accountability objectives.

The latter, the administrative management budget, is anchored in terms of capital and serves as an analytical explanation of administrative activity, and for the measurement of results in account rendering.

Budget information is completed by institutional missions, which are the entities through which the budget can be read in terms of its aims and which give a new expression and evaluation of State spending and the connected public policies of the sector and related costs.

The new budget structure is therefore an operative condition for moving away from legal-accounting budget logic, based exclusively on formal controls and moving towards economic logic, aimed at verifying the results of administrative action in the light of analysis of costs and returns on public policies put into action.

To this end, the legislative decree no. 279/1997 – Title III, introduced the single system of analytic economic accounting for cost centres, i.e. a management type of accounting whose characteristics followed trends in economic management and allowed administrative action to be evaluated by measuring results and returns on public policies put into action.

The structure, allowing bodies to correlate resources used with results produces, is based on the logic of destination, which aggregates costs on the basis of objectives to be reached, both by their nature and by allowing costs to be identified on the basis of resource characteristics.

The economic accounting system outlined above is divided into the following essential instruments:
1) Plan of cost centres
2) List of services
3) Plan of accounts

In particular, the plan of accounts lists the items which identify all the resources that generate a cost for Public Administration and the relative rules of computation. It also breaks down the composition of each voice according to different levels of detail. The plan is structured on three levels and in passing from the first to successive levels, information identified is increasingly detailed: a levels structure allows a specific phenomenon to be studied in the most appropriate level of detail according to the aim of the analysis being carried out.

Each Administration that goes on to establish a process of internal management control can follow this breakdown from the final items identified and manage the information in the level of detail that is considered most appropriate for their self-monitoring action.

It also needs to be stressed that both the definition of institutional missions and the Plan of accounts conform fully to European accounting standards. The Plan of accounts classifies the nature of costs in accordance with the European system’s economic classification of accounts (SEC 95), while institutional missions are identified as the fourth level of the COFOG (Classification of the Functions of Government) functional classification. This is also part of SEC 95 and is structured on three standard levels for all member states.

The system of analytical accounting also concerns Public Administrations formed under art. 1 of Decree Law. vo n. 165/2001 and under art. 25 Law no. 468/1978, which aim to coordinate accounting systems and consolidate economic values. Nevertheless, considering the importance and dimensions of the new accounting system, it was considered appropriate to introduce it in the year 2000 for single Central State Administrations, with Circular n. 32, 1999.

On the basis of proposals for aims and programmes to be followed, formulated by the heads of general management offices, or equally by political authorities, each Central Administration has to define, as well as its usual financial budget plan, an economic budget for each cost centre, identifying the costs forecast for each institutional mission followed, in relation to the respective services performed.

Among the most important innovations produced by budget reform is the restructuring of the State general rendering of accounts, both for the accounting part (budget accounts) and for assets and liability (accounts for assets and liability). Restructuring this rendering of accounts has implemented the SEC 95 classification, both for the accounting part and for the assets part that defines the revenue capacity of State resources, in order to better define their value and use.
Law n. 94/1997 set out a wide and complete reform for a better interpretation of public finance data, at political and managerial level. This, however, should be completed by the natural evolution of the integration of economic and financial accounting systems.

In conclusion, it is evident that political and administrative powers have been called on to answer to a great change and that the reform process also has a cultural effect. In order to realise all its benefits, and given the notable distance between regulatory plans and administrative practice, this process must be able to count on the effective introduction of regulatory innovations into the real world of administration. There must be full commitment, active participation and collaboration on the part of all those involved in working with these new realities.
ACCOUNTING AND BUDGETING PRACTICE IN ITALY WITH SOME PROPOSALS FOR REFORM

ABSTRACT

This report aims to offer a general analysis of the practice of budgeting and accounting in Italy, in the lights of recent constitutional and legislative reforms. This analysis is then used to formulate further budgeting and accounting reform proposals that parallel and compliment innovations tested in recent years, in an attempt to make the internal system of rules match the European system.

The paper is divided into four chapters. Chapter one, the introduction, gives a brief overview of the financial dimension of spending, for different levels of government, focusing particularly on spending managed by Central Administration and the financial autonomy of the Regions and Local Bodies.

The second chapter briefly outlines the procedural-organisational model for keeping accounts, focussing on the organisation of the accounting model and the accounting support model.

The third chapter gives a more detailed analysis of the activity of different levels of government as regards rules and flows of funds. In particular, the content, characteristics and aims of the Internal Stability Pact from 1999 to 2004 are analysed, together with the relative systems of incentives and control.

The fourth and final chapter aims to outline possible solutions to criticisms brought to light by the Italian model, in relation to other European countries (especially Spain) and proposes possible redefinitions of the Internal Stability Pact and correction mechanisms for correcting spending ceilings.
1) FINANCIAL DIMENSION OF SPENDING FOR DIFFERENT LEVELS OF GOVERNMENT

In discussing the definition of the rules of the Internal Stability Pact (ISP) we must stress the need for flexible rules, as rigid rules prove impossible to enforce in the long term. However, the term flexibility should not be intended as complete discretion or a total absence of conditions. There must be rules, which, at the same time, have to be respected, but they need to be sufficiently flexible to be enforced even in moments of difficulty. In this context, there is much to be learnt from the experience of other European countries.

An OECD study on regulating relations between central government and local government in European countries gives a classification of four possible models:

- **Centralist model**, typical of the UK, Greece, Ireland and Luxemburg.
- **A model of centrally imposed rules**, which is found in Italy, France, Finland and Portugal.
- **Formalised cooperation model**, like that of Germany, Spain, Austria, Denmark, Iceland and Belgium.
- **Absence of coordination method** (which in Europe seems typical only of Switzerland, but is very much used overseas in the USA and in Canada). ¹

The most widespread and best functioning model in Europe, however, appears to be the model of formalised cooperation. The characteristic of this model is not that permissive behaviour on the part of lower levels of government is acceptable, but that there is consensus and dialogue which leads to the establishment of rules and determines sanctions.

Furthermore, in the light of recent constitutional reforms, which have reformed the Italian state in a Federalist sense, a model of formalised cooperation appears a natural evolution of the relationship between central and local government in Italy.

1.1 Spending managed by Central Administration in Italy

The meaning of public operator can easily be a source of confusion in Italy. Terms like State Sector, Public Sector and Public Administration are often used as if they were synonyms. A distinction first needs to be made between the following:

- **State Sector** (as defined by the Treasury): the State (Budgetary and Treasury management), the Deposits and Loans Fund (up to December 2003) and the Agency for the South of Italy (up to 1993, the year of its closure), together with the autonomous of ex-Central Administration companies (i.e. ANAS and the State Forests), make up the definition of the State Sector (even if in the new definition,

¹ OECD, Fiscal Relations across Government Levels, Working Party n.1, March 2003
which is usually followed by the State and not by the Bank of Italy, the autonomous ex-companies are excluded and reference is made only to the central nucleus – The State – Deposits and Loans Fund.

- **The Public Sector** (as defined by the Treasury). For a definition of the Public Sector, we add to the State Sector other Central Administration Bodies (for example, the office of the President of the Council, the Chamber of Deputies, the Senate, CNEL, CONI and research bodies), local administrations and social security funds (we must stress here too, that in order to be coherent with the new definition of State Treasury Sector, the Public Treasury Sector excludes the autonomous ex-companies of Central Administration. In the Bank of Italy’s definition of the Public Sector autonomous ex-companies (such as the State Railways, Post and Monopolies) and other regional and municipal companies are added to the Public Sector as defined by the Treasury.

- **Public Administration** (ISTAT definition). In conclusion, Public Administration seems to coincide with the Public Sector in the definition given by the Treasury; in reality, ANAS and State Forestry territories should be added to this and, specifically, only Public Bodies that do not produce market goods and services should be considered. From an economic point of view, “the services are not destined for the market. Their production is destined for collective and individual use and mainly financed by obligatory contributions made by bodies belonging to another sector and /or all the institutional bodies whose main function is to redistribute the earnings and wealth of the Country”\(^{2}\).

Public Administrations are divided into Central Administration, Regional and Local Administrations and Social Security Agencies.

Central Administration is made up of:

- The President of the Council.
- The Chamber of Deputies
- The Senate
- Ministries
- Research Agencies
- Central bodies that operate over the whole national area

(Cnel, Deposits and Loans Fund, Anas, Cri, Coni, Cnr, Cnen, Istat, and Isae etc.)

Central Administration’s Budget in 2004 was 76,095 million Euro. The Table below shows the main data related to the Public Administration budget in Italy for 2003 and 2004.

\(^{2}\) SEC 95, UE Regulation 2223/1996, paragraphs 2.68 and 2.69.
Central Administrations in 2004 accounted for 19.3% of total Public Administration spending, as shown in Figure 1:

**Fig. 1: Central Administration spending in total Public Administration Spending**

<table>
<thead>
<tr>
<th></th>
<th>2003</th>
<th>2004</th>
</tr>
</thead>
<tbody>
<tr>
<td>Transferred Costs³</td>
<td>215,484</td>
<td>221,690</td>
</tr>
<tr>
<td><strong>Total Central Administration Spending⁴</strong></td>
<td>72,819</td>
<td>76,095</td>
</tr>
<tr>
<td>Financial Costs</td>
<td>78,631</td>
<td>74,898</td>
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<tr>
<td>Funds to be distributed</td>
<td>23,286</td>
<td>21,577</td>
</tr>
<tr>
<td><strong>Total Public Administration Spending</strong></td>
<td><strong>390,220</strong></td>
<td><strong>394,260</strong></td>
</tr>
</tbody>
</table>


⁴ The Central Administration Costs are an aggregate obtained by totalling Management Costs, Staff Costs, Extra Costs and Amortisations. Source, idem.
1.2 Financial autonomy of the Regions and Local Bodies

Councils, Provinces, Cities and the Regions have financial autonomy in revenue and spending. Some economic-structural indicators produced by ISTAT can be useful in determining how much and what kind of financial autonomy is enjoyed by Local Bodies. In particular, the indicator that quantifies the level of financial autonomy is an economic aggregate, calculated as shown below:

\[
\frac{\text{tax revenue} + \text{local-tax revenue}}{\text{current revenue}}
\]

The level of financial autonomy of Council Administrations for 2002 is equal to 66.2%. This figure shows a net increase compared to 2001 (59.5%).

The level of financial autonomy of Provincial Administrations for 2002 is equal to 48.6%. This figure appears to have decreased noticeably compared to 2001 (53.4%).

As with other statistics provided by ISTAT, the level of financial autonomy also appears differentiated by region and class of demographical size. The indicator follows the usual characteristics of territorial variability, being higher in the Centre-North and, with a few exceptions, lower that average for regions in the South.

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5 Constitution of the Italian Republic, Title V, art.119, comma 1.
2) THE ORGANISATIONAL-PROCEDURAL MODEL FOR KEEPING ACCOUNTS

2.1 The accounting model in Italy

The accounts of the State and Public Sectors, from a strictly fiscal point of view, are organised in terms of funds; the balance sheets of Public Administration are drawn up in terms of economic competency. The accountancy principle of economic competency is based on an economic fact that generates a transaction: an economic value is created when credits and liabilities arise, are transformed or cancelled. This model is conditioned by the moment of effective payment. Production is registered at the moment in which a given activity is registered and not when the payment for it is effectuated. In order to harmonise and quickly group various economic aggregates, it seems opportune to organise all public budgets on the basis of the criteria of economic competency, adopted by national accounting.

2.2 Accounting support model.

In national accounting, estimates are generally carried out on the basis of funding budget data of Public Bodies. These estimates are later adjusted, through quarterly surveys and with data from MEF and ISTAT – Ministry for Internal Affairs surveys. Only in a few cases (e.g. ASL), data taken from Public Body balance sheets follow the criteria of economic competency.

2.3 Organisation of the Accountancy Model.

Law 94/1997 brought about the organic reform of the public budget. This reform transformed a financial budget into an economic one: in particular, from a budget divided into over 6,000 expenditure items, around 1,000 basic forecast spending units were selected, one for each target. Furthermore, each administrative structure is responsible for its own budget and each budget shows the relationship between costs and targets and is checked each year. The outcome of the reform is a historic one: it represents the end of the incremental budget and the beginning of the exponential increase of the Italian public debt.

3. RULES AND FINANCIAL FUNDING FLOWS IN DIFFERENT LEVELS OF GOVERNMENT

3.1 Contents and characteristics of the Internal Stability Pact

The “Internal Stability Pact”(ISP), inaugurated in the Italian version with the budget measures of 1999, is a public finance instrument to control the reduction of deficit and debt in decentralised bodies, in the new context of conditions placed on public finance as a result of entry into the single currency.
The statutory context in which ISP has been introduced has seen, in recent years, a substantial shift in financial relationships between various levels of government. For example, the new constitutional text relating to title V gives specific competence at a central level in coordinating public finance (art. 117 Const., matters of current legislation), and sanctions the obligation of parity with the current part (art. 119 Const.).

ISP is essentially based on the management and control of the balance between outgoings and revenue, a balance that can be accounted for in accounting terms. Various versions of ISP ensure that each body agrees to the target fixed at an aggregate level, in terms of improving the balance. In general, the directives define the criteria for calculating a programme target, that the balance has to meet as a result of management during the course of the year.

3.2 Systems of incentives and control of respect for the rules agreed in the Internal Stability Pact

In its initial form, the stability pact did not assume the nature of an imperative norm, but was more a programmatic exhortation to achieve shared aims, greater transparency in the relationship between different levels of government and greater accountability among political representatives. It seemed useful, at least in the early phase, to set out reward systems and procedures for informative monitoring, rather than penalisation (for example, substitutive powers or pecuniary sanctions).

In successive versions of the Pact, the component of sanctions becomes stronger than that of incentives. The first attempt to apply pecuniary sanctions (based on cuts in ordinary transfers) was in conflict with the functional needs of the public body, which could be threatened if sanctions were applied. Norms relating to local bodies moved towards forms of discretionary powers in the main items of spending (staff, spending on goods and services and investments). In fact, in this case, the formulations of sanctions produced a result similar to limiting spending volumes, applied to single categories.

The changes in sanctions described lead the Court of Accounts to underline how far the institute had moved from the original nature of programmatic exhortation towards imperative norms. An indication of the evolution of the norms that accompany ISP conditions are the 1999 and 2000 versions of the pact that “suggest” actions that bodies can adopt to achieve the target of keeping deficits down, successive versions, from 2003 “point out” actions to adopt as preventative measures and obligatory actions in the case of non-compliance.

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8 Audit Courts, ruling and report on the results of an examination of financial management an the activities of local bodies for the financial year 2000.
9 Among the measures suggested were: following efficiency targets, increasing productivity and reducing costs in public service management; keeping the rate of spending low
Incentives. Financial laws for 2000 introduced a reward system for bodies that achieve the targets of the Pact. If the aim of improving the final balance has been clearly reached by each sector of bodies, a reduction of 50 base points on the nominal interest tax applied to mortgages by the Deposits and Loans Fund was granted. If, for the two years 1999-2000, a single body achieved a deficit improvement greater than 0.3% GDP, the reduction in interest on the same loans was increased to 100 base points. The first incentive was awarded if each single sector (regions, provinces or councils) achieved the target. There was therefore a defined system of group behaviour monitoring, in which reciprocal control on spending trends in the current year played a role. The second incentive operated for single bodies and should have induced those bodies with greater budget flexibility to make a greater contribution than the average of other bodies, thus increasing the probability of the whole sector meeting the target.

The incentives issue appears in an indirect form in the finance legislation for 2002, where resources cut from non-compliant bodies are redistributed among those that have performed better. With the suppression of these directives, the theme of incentives disappears completely from the Internal Stability Pact.

3.3 ISP Targets from 1999 to 2004

Until 2001, regulations were the same for regions, provinces and councils with populations of over 5,000 inhabitants. From 2002, regulations relating to regions are different, also as a result of the agreement on health of the 8th August 2001. This differentiation is present in successive legislation. Regulations for local bodies, however, remain identical, with the exception of the 2003 version, which compared to levels of the previous years; strengthening the activity of tax assessment to increase the rateable base level; increasing the recourse to loans at half price and the prices of public services for individual demand, according to the employment programme; limiting the use of contracts stipulated outside organic means and external contracts and procedures to close collegial organisms not regarded as essential, developing initiatives for sponsor contracts, agreements and discounts for non-essential public services, reduction of direct contracting-out of local public services to controlled companies or to special companies and renewing concessions for these services without a specific public tender bid; developing initiatives when purchasing goods and services to use contract formulas, norm UNI 10685; and putting public services onto the free market.

10 The Constitutional Court has already produced a decision on prescribing measures to be adopted in order to respect financial conditions in 2002 (cfr. Sentence 36, 2004).
11 The reduction is on a nominal interest tax applied to loans from the Deposits and Loans Fund, in amortisation until 31/12/1998 and granted by 31/12/1997, with costs met by the regions and local bodies, whose interest tax was higher than the nominal interest tax applied to ten-year fixed rate loans from the date in which the law came into force.
introduces measures and definitions differentiated targets for councils with populations of over 5,000 inhabitants and provinces.

In its current version, the categories of local bodies involved in the ISP with different normative treatment can be identified as follows:
1. regions with special statutes (RSS) and autonomous provinces (AP)
2. regions with ordinary statutes (ROS)
3. provinces and municipalities with pop. >5,000 abitanti

*Internal Stability Pact 1999*

In 1999, the contribution required from territorial autonomies to keep deficits low is indicated as a percentage of the gross domestic product. The version of the 1999 Pact establishes that the reduction of the annual deficit should be equal to at least 0.1% of GDP. The implementation directives explain that the reduction of the balance should be understood as an adjustment of the deficit tendency, i.e. the deficit that would arise without corrective action. In the absence of regional and local measures for GDP, the directives state that the adjustment should be determined as a percentage of spending in accordance with the Pact.

The deficit is calculated as the difference between the final revenues (including the proceeds from divestment of building stock, net of State transfers, from collection of credit and proceeds derived from the sale of property) and the final outgoings, not including interest. For the final calculation, ordinary, equalising and consolidated transfers of the State (for the current part) should be subtracted, along with all those provided by all state administrations (for the capital part). Elements that should not be taken into account include: revenue derived from taxes on third-party (civic responsibility) car insurance (RCA); the provincial tax from paperwork formalities of the Public Automobile Register (PRA); provincial administration revenues from substitution of fiscal transfers, gains from levies on property register, mortgage and cadastral procedures within the competence of the municipalities. For the regions, all activity related to health is included. The year 1999 is the only one in which norms also included a call to reduce debt. The directive specifies, however, that the reduction of debt is not a direct target, but a derivative, in the sense that it depends on the reduction of financial deficit and the policy of divestment of real estate assets.

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12 Bodies that presented the Treasury Ministry with at least five year long financial plans for progressive and continual reduction of the relationship between their increasing debt and GDP, were granted an early refund on loans from the Deposits and Loans fund without further costs other that the repayment of the residual debt.
**Internal stability pact 2000**

For 2000, the objective was fixed in similar way to the previous exercise, calling for the reduction of the deficit by at least another 0.1 percentage point of GDP. It also anticipates the recovery of any shortfall in the 1999 target. In this operation the definition of the project balance must pass through a calculation of the tendential balance, which is duly adjusted.

The definition of the financial balance is instead partially modified. The final revenue account confirms the exclusion of transfers (partly current and capital) originating from the State, the EU, and the bodies participating in the internal stability pact, and financial revenue (divestments and collection credits, established for 1999 in the explanatory material). What is anticipated is (unlike the 1999 version) the exclusion of revenue from the divestment of building stock. Expenditure, as in the previous financial period, shall not include passive interest; expenditure arising from transferred resources with specific-use restrictions are excluded. Included is the balance for actions designed to confront exceptional events (entering into the category of extraordinary but not foreseeable events).

The explanatory papers establish that the regions in particular prepare separate balances for activities of strictly regional competence, for local health and hospital authorities, and for their consolidated accounts. In order to construct the balance for regional activities, the revenues must be recorded net of IRAP and IRPEF yields, and the outgoings must be recorded net of transfers to the national health authorities and to the State, and those to the local bodies liable to IRAP.

**Internal stability pact 2001**

The ISP for 2001 is innovative in the way contributions are set: it specifies that they should be defined, in regions and local authorities, in relative terms with respect to the deficit of the two preceding exercises. The deficit of each authority cannot be higher than that of 1999 increased by 3%. In this way, the programme objectives do not require the forecast calculation of the tendential balance, but more simply, the projection of a balance achieved at some point the past.

To establish the extent of the deficit, the 2001 version of the ISP adopted the principles of the preceding exercise, confirming in legislation the exclusion of health assistance and stipulating also that the financial balance must be calculated net of revenues and expenditures, for which there are legislative modifications to transfer or attribution of new functions or of new revenues.

**Internal stability pact 2002**

The ISP 2002 sees for the first time the separation of the regulations for the regions from those for the local authorities. It also introduces further important
innovations: the three year projection of goals, constraints on current spending and
the imposition of constraints on delivery and commitments.

The regions. The regulation is established in the decree law that stipulated the
health accord and calls for the replacement of the balance constraint applied up to
that moment, with a limit to the growth of current spending. This parameter was
not modified by the successive legislation, so from 2002, the regions’ budget
choices, under the internal stability pact, have been subject exclusively to a rule of
spending growth (no longer on the balance).

In 2002, the regions can neither pledge spending nor authorise payments for
current spending of more than the sum of pledged spending and current spending
of the 2000 period, increased by 4.5%. This amount corresponds to the 2001
inflation rate of 2.8%, and to the projected inflation rate for 2002 (1.7%). For
2003 and 2004, the regulations establish the application of an increase equal to
the planned inflation rate.

The objective is calculated by taking current expenditure, net of spending for
health assistance, of spending for transfer of functions (within the limit of
corresponding transfers), of spending financed by EU programmes (within the
limits of the corresponding subventions (and of passive interest).

As indicated by the Audit Courts, although health spending is differently
regulated on the basis of the accords between the State and the regions, it still falls
within an overall control framework on the evolution of the totals of public finance,
put into effect by the imposition of a spending ceiling.

Provinces and municipalities. The balance compatible with the public finance
objectives entail the imposition of a constraint of 2.5% on the growth of the 2002
effective financial balance, in relation to the 2000 balance. Therefore, to calculate
the 2002 programme balance, the authorities must apply a 2.5% increase or
decrease to the 2000 financial balance, depending on whether the balance is
positive or negative.

In the case of the local authorities, the three-year balance constraint is subject
to an additional restriction on the growth of pledges and payments of current
spending: it cannot exceed the total of pledges and payments assumed in 2000,
magnified by 6%. Note that this is an additional constraint on both pledges
(juridical competence) and on payments (treasury competence), correlated to that
on the deficit, in the sense that the additional constraint on spending can in no way
determine an increase in the financial balance beyond the limit allowed on the

deficit.

Unlike the regions sector, in the case of the local authorities this involves a constraint that appears in the sole 2002 financial period, while all the successive periods will exclusively adopt the principle of improvement of the financial balance.

The Audit Courts have reacted to such an arrangement by distancing the institution of the ISP from its original sense of an instrument capable of indicating the results to be achieved, while leaving open the mode to achieve them. The arrangement of introducing an additional constraint on spending was appealed against in the Constitutional Court by some regions (Ruling 36/2004 of the Constitutional Court). The Court’s decision to reject the appeal justified the arrangement as an exceptional measure in the context of public finance.

Calculation of the objective is achieved by calculating spending net of passive interest, of spending financed by EU programmes, of spending for transfer of functions and exceptional expenditure.

*The internal stability pact 2003*

**Regions.** For the regions, the 2003 finance bill was limited to recalling the provisions of the 2002 regulations.

**Provinces and municipalities.** The ISP for calls for the objectives of the provinces and municipalities to be distinguished: the 2003 municipal deficits must not be higher than that of 2001, while the provincial deficit must not be higher than of 2001 magnified by 7%. A deficit goal will be set for 2004, equal to that of 2003, increased by the programmed rate of inflation.

For both sectors the arrangements refer explicitly to management of competence and funds. The 2003 finance bill also introduces: 1) a three-month planning system of financial flows; 2) a new regulation, effective from 2005.

Regarding the first aspect, the local authorities are obliged to provide a cumulative forecast by the end of February, divided in trimester blocks, in terms of the financial deficit fund, consistent with the annual objective, to be communicated to the Finance and Economy Minister. The explanatory paper makes clear that unlike the programmed financial balance, which results from a procedure determined by law and therefore inalterable, the three-month objectives are the outcome of predictions and trends that in the course of the year could even give indications contrary to the annual objective.
The 2003 finance bill introduces some important modifications to the statutes, with effect from the 2005 financial period. They are to delineate a stable reference framework for the application of the ISP. It determines that the sector request for the financial period will be set with the annual financial manoeuvres. More specifically, the financial deficit of any body in that period cannot be higher that resulting from the application, on the corresponding financial deficit of the preceding year but one of an identified percentage variation, for each of the years in consideration, by the financial law. In the first application, for the year 2005, the percentage is fixed at 7.8% compared to 2003.

The 2003 finance bill defines the other elements relevant to ISP (particularly the sanctions and reference balance), with the assumption that they will be established once and for all and will not be altered in any other financial year, as has happened in the past. To help achieve this, the reference balance will be significantly modified and simplified; it is in fact determined as the difference between revenue and final expenditure; revenues are considered net of state transfers assigned in the form of shared taxes and income from divestment of real estate. The expenditures are included not of those deriving from the acquisition of shares. Thus, the aggregate relevant to ISP goals includes both expenditure on interest and capital accounts, aligning itself in definitive terms with the aggregate relevant for European budgetary rules.

These arrangements refer explicitly to management of funds and competence, using accounting registration criteria to confirm the difference between the internal rules and the European ones, based on economic competence.

Internal stability pact 2004

The 2004 finance bill contains no further provisions for the ISP, implicitly recalling the directives of the previous financial period. The explanatory paper states that the 2004 programmatic balance corresponds to the 2003 balance, magnified by 1.7%, the programmatic rate of inflation resulting from the DPEF 2004-2007.

The decree law no. 168 of 2004, coming into effect mid-year, introduces another constraint on regions of ordinary statute, provinces and local authorities with populations greater than 5,000. These bodies must ensure that “expenditure for acquisition of goods and services” sustained in 2004 – excluding spending due to the execution of services correlated to user’s subjective rights\textsuperscript{14} - is no greater

\textsuperscript{14} The formula used is quite generalised so that such expenditure is not easily identified. In the Senate Budget Commission session of 27 July 2004, Under Secretary Vegas made clear that it refers chiefly to expenditure corresponding to services of individual request.
than the average annual expenditure sustained for such purposes in the years 2002 and 2003, reduced by 10%\textsuperscript{15}. During the examination in the Chamber of Deputies, a partial moderation of directives was introduced for the best performing regions and local authorities, i.e. those who respected the objectives of the internal stability pact in 2003 until 30 June 2004: for these authorities it is determined that the reduction of 10% is not applied to the expenditure already committed on the date the decree law came into effect.

4) POSSIBLE REDEFINITIONS OF ISP AND MECHANISMS OF CORRECTION

4.1 An alternative ISP reform proposal

The aim is to redefine the internal stability pact from a federalist point of view, which necessitates appropriate involvement of decentralised bodies and a concrete realisation of federalism indicated in the constitutional reform, involving not only a precise definition of the allocative and redistributive functions of local bodies, but also giving them adequate sources of revenue (taking into account fiscal efforts and equal pro capita spending parameters).

Only on this basis is it possible to define a stable situation for sectors of local bodies in each region that is truly consistent with respect for European rules and, at the same time, allow each body to achieve, through the funds transferred, a structural financial stability. In the light of a progressive realisation of such an indispensable aim, the current situation could be improved as regard the following three points:

1) The criteria for establishing macroeconomic targets must be shared and must therefore be the result of an agreement between the State and decentralised bodies. It must also remain stable over time.

2) The macroeconomic target should also be planned with reference to single regional areas.

3) The spread of the cost of keeping the public deficit low between local bodies belonging of single regional areas should be the result of an agreement between these bodies and a guarantee that is offered collectively to the central body.

\textsuperscript{15} It would seem that this objective has to be achieved independently of the allocation quota for the acquisition of available goods and services (in other words, not pledged) on the date the decree-law was passed. Clarification would be needed on the possible effects of the directive should the quota of resources already employed be such as to not permit the body to obtain, on an annual basis, the necessary containment to respect the new financial constraint.
This mechanism would have the dual advantage of rendering local bodies protagonists and more responsible towards the ISP. The pact could be applied with more flexible criteria at a regional level, for example by taking a multi-year view, which would allow single bodies to make up for a negative situation one year with a positive one the next. It would also be easier at a regional level to monitor budget trends of single bodies in order to identify and introduce measures that may be needed in order to ensure that the pact is respected\textsuperscript{16}.

### 4.2 Spending ceilings and correction mechanisms

The so-called “spending block” decree (Decree-Law n.194, 2002, converted from no. 246, 2002) affects the area regarding procedures of constitution and management of State budget and spending laws. It reconsiders power shifts in this field and orientates them away from Parliament and towards the Government, from the Ministries of spending to the Ministry of Economics and Finance. This is perhaps a sign of the times in which, given European rules, action in the public sector is increasingly determined by the availability of resources rather than being firmly anchored in intervention programmes.

The new instrument of control in public budget trends includes a stricter application of the collateral obligation contained in article 81 of the Constitution. For some types of spending, it includes a block on the application of laws where there is no cover, being the charges stemming from legislative provisions placed as spending ceilings.

There is a change in the relationship between executive and legislative power as, once spending ceilings are fixed, exceeding them during the course of the year undermines the efficiency of the laws. This is established with the publication of a decree by the Ministry of Economy and Finance, stating that available resources have been used up.

This innovation in the identification of excess spending has a structural effect. It should help to make forecasts regarding public spending more realistic as a result of a more accurate estimate of the costs linked to spending legislation. However, in the early stages of its application, there has not been complete transparency regarding the causes of the anticipated shifts, the systematic nature of errors committed and the allocation of specific responsibility.

Empirical experience has often shown that forecasts are not wholly trustworthy, revenue is usually overestimated and outgoings are usually underestimated in the public budget. A reduction in the probability of forecast

errors is an important aspect for both accounting in public spending and for a
citizen’s ability to be able to use a particular service or goods produced by Public
Administration.

The difficulty of producing correct estimates (as a result of errors, lack of
detailed information, the difficulty of identifying the subjects involved and an
unmanageable interpretation of norms, parliamentary pressure and pressure due to
the electoral cycle) both in terms of new spending laws and the arrangement of the
budget on the basis of laws in force, depends on various factors (shown in the laws
on accounting and in parliamentary regulations). These characterise the cycle of
quantification of behaviour of institutional agents involved (Parliament, the
Government, the Ministries of Expenditure, The Ministry of Economics, the State
General Audit Department and the Chamber’s general budget services) which often
result in agreements on unrealistic budget allocations with a consequent reduction
in the range of corrective manoeuvres to apply to financial legislation.

Assessment of the financial effects of laws is a weak point in public finance
management. Different interests evidently exist to formulate optimistic estimates
related to the costs of spending laws: the Government, the Ministry of Economics
and all the Ministries of spending are, in fact, oriented towards underestimating
outgoings and overestimating revenue. This implies more favourable budgets and
allows a greater number of projects get underway.

Taking into consideration spending ceilings and eventual safeguarding clauses
should force those bodies responsible for spending to plan more realistic forecasts
and should stimulate a greater consciousness and cooperation in the field of a more
transparent process of estimating the costs of laws. The resultant improvement in
behaviour should make quantification methods more trustworthy and improve the
technical reports connected to new legislative provisions.

4.3 Hypothesis of an alternative system based on the experience of other
countries

By drawing on the experience of other countries (especially similar models,
like that of Spain) and some regulations that are found in the same financial laws of
the Italian state, we can hypothesise the outline of an alternative system, whose
nature would respect territorial autonomy and European growth when putting the
Stability Pact into action.

1) Programming for objectives

The internal constraints may possibly tend progressively towards alignment
with the characteristics of the European pact. This pact imposes constraints on
results, not on the means with which to pursue them. This was the system adopted
by Italy at an earlier time, and it is also used by Spain to guarantee respect for the principle of financial stability, without compromising the autonomy of the local authorities. They are free to pursue their given objectives.

2) Logic of the medium term

The internal pact could obligate the regions and local authorities to achieve objectives on a three-year basis instead of annually. This is the system currently in force in Spain.

The logic of the medium period would allow:

a) a programming scheme that would not hinge on an annual basis, since the bodies cannot manage their financial efforts in time, but would have to produce immediate results;

b) avoidance of financial restructuring with the simple reduction of investments. In fact the containment of the year-based outflows tends to shift towards investment, rather than towards the reduction of current expenditure. This happens because it is more manageable and less politically onerous to reduce investments, (programmed outflows, but not implemented) than to intervene on expenditure normally sustained, from which the public have certain expectations.

Taking on a medium term logic would therefore allow the distribution of the reduction of expenditure over more financial periods, reducing the social impact and at times being able to exploit revenue deriving from investments.

3) Orchestration among various levels of government

The reorganisation measures ought to be subject to an agreement, or at least an opinion of the bodies to which they apply. In fact, the definition of the measures called for in the finance law seem inapt. This is a regulatory act conceived to determine the incomings and outgoings of the State. The insertion of rules that explain effects on the autonomous authorities denotes the absorption of decisions on the overall financial system into the orbit of the state.

It therefore seems that the bodies can at least express an opinion on issues that affect them, before the directives come into effect, in a similar way to the Spanish experience. In the Italian scenario, it is not rare that the bargaining occurs with the financial legislation already in place, when the autonomies try to negotiate arbitration solutions between their own needs and those the state has already established.
4) Adequate times for the definition of objectives

The definition of objectives ought to take place well in advance of the financial periods in which they are applied. In the current situation the objectives are defined as soon as the bodies have decided the financial manoeuvres ahead of the period they apply to. In Spain for example, the objectives are decided in the first trimester of the year, to allow the local authorities to revise their programme in the light of the new directives.

5) Creation of performance bonuses

The drafting of constraints can also take into account the performances obtained by the bodies, differentiating the responsibilities and arranging for award provisions for those who have respected the directives. On the one hand, the return of discounts on loans seems an interesting measure; on the other hand, in a context of differentiation and incentive, it would seem admissible to also have limitations applied to the autonomies, like capping recruitment (E.g.: the parameter of the employee/population ration seems adequate for identifying which bodies can recruit new staff). On the basis of this logic, freezing the tax rates seems reasonable, it limited to the bodies that have not respected the designated constraints. In fact a ban on raising taxes averting the possibility that risk these bodies will re-enter the threshold by increasing fiscal pressure instead of decreasing spending. An increase in fiscal pressure in fact generates effects on the country’s overall system and souls therefore be avoided, when alternative measures for renewal are possible.

6) Calibrated return to borrowing

Borrowing ought to be allowed in the presence of a plan for re-absorption in the medium term; it is advisable to avoid measures that restrict the possibility of borrowing beyond the limits indicated in the Golden rule normally in force. The borrowing limits seem to be contrary to the constitutional dictates, besides exceeding the usual Golden rule. Taking a cue from the Spanish system, one can conjecture that investments are permitted, provided that the bodies at the same time arrange for the means and time to re-establish the equilibrium of the budget.
SPAIN
BUDGET FOR RESULTS IN SPAIN: LESSONS LEARNED AFTER TWO DECADES OF REFORM

Eduardo Zapico Goñi

1) HISTORICAL BACKGROUND

In Spain, as in other countries of continental Europe, the traditional legal perspective has been dominant for the functioning of Public Administration. Spending officials have been mainly concerned with the legality of spending procedures and compliance “control.” This legal control orientation was reinforced by revenue-driven budgeting. More or less until the approval of the democratic Constitution of 1978, budgeting and financial management corresponded to the so-called “revenue budgeting” practices although Spain was a relatively wealthy country. Richard Gunther explained this paradox by the unwillingness or inability of the Spanish Government to increase taxation, resulting in erosion in public investment and determination of expenditure estimates by revenues received. Among other consequences, this type of budgeting provoked rigidity and emphasized tight controls on spending. In “revenue budgeting,” budgetary activity and financial management mainly serve to control bureaucratic behavior appropriate for a limited public sector with relatively low expenditure.

In the 1970s with the inception of Planes de Desarrolo (Development Plans), an effort was made to introduce programming and goal setting. An Interministerial Commission was created to develop evaluation methodology and coordinate other units responsible for the evaluation of investment projects. This constituted a first step toward introducing ex ante evaluation or cost-benefit analysis and program budgeting. However, there were several serious limitations to this initiative. The analysis was only applied to capital investments and focused on isolated investment projects. Global program effects were not considered. Due to

2 R.Gunther, Public Policy in a No-Party State Spanish Planning and Budgeting in the Twilight of the Francist Era (Berkeley, Calif.: University of California Press, 1989), 51
3 J.M.Lozano, Apuntes de Cátedra de Hacienda Publica, Universidad Complutense de Madrid, 1982 lectura tema 6,111 y ss.
measurement difficulties, it was not feasible to consider projects relating to social issues (health, employment, education). Evaluations were applied only to ministries of a clearly economic/investment nature (those for Public Works, Agriculture, etc.). Furthermore there was a lack of correspondence between project costs estimated for the purposes of evaluation and budgetary costs of the line-item budget. Personnel costs were not allocated within the budget according to the Department in which civil servants worked, but to the Department paying the salaries. On many occasions this was a central unit in each ministry. There was a lack of motivation and capacity for performing across-the-board evaluations.

From early 1970 to late 1980, public spending as a percentage of GNP in Spain had almost multiplied by two (see next graphic), reaching the average spending level of industrialized countries. But budgetary and financial management capacity did not develop so quickly. At the end of the 1970s budgeting was described as follows: (1) Allocation of resources was incremental, involving negotiations on additional requests for the following year; (2) main interest of budget holders was in executing or “consuming” their whole budget authorization, which was essential for being considered an “effective” manager and for obtaining further credits in the future; (3) Financial control mainly implied inspection on formal compliance with public accounting rules and financial regulations. The concern of control units was monitoring and avoiding fraud and overspending. The control procedure was based on an extremely detailed and rigid ex-ante verification procedure (visa) involving every spending proposal; (4) Parliamentary control of budget execution was based on the role played by the “Tribunal de Cuentas” (Court of Auditors). This form of control was legalistic in nature, and the final approval of the General Ledger did not generally provoke any interest among parliamentary members.

![Graph: Government Expenditures (percentage of GDP)]

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8 C. Argüello, J. Palacios. El Presupuesto por Programas en España, Hacienda Pública Española, No50, 1979: 280
It is clear that until 1980 the Ministry for Finance was concerned with overall expenditure control and mainly emphasized compliance with financial regularity. Budget formulation was largely an exercise in administrative calculations (projections of the amount of spending implied by administrative decisions, new laws, inflation, etc.). Budgeting and financial control focused almost exclusively on the legality of procedures. Evaluation and policy planning were absent from these budgetary practices.

Since then, Spanish government has sought to control public deficit and inflation by cutting spending and promoting economy, efficiency, and effectiveness in expenditures. In 1977, a new Budget Act (Ley General Presupuestaria) set out the main guidelines for budgetary reform, in the 1980s obliging the government to formulate and apply its budget by objectives and programs. The new democratic Constitution adopted in 1978 laid down the basic frame for the modernization of government financial management: public service should perform with economy and efficiency (Article 31.2 Constitución Española) and effectiveness (Article 103). This may be partially explained by the fact that officials in the Ministry of Finance and experts on public finance in the university had for long time been asking for these principles to be incorporated in the basic legal framework. Derivated legislation in the next years followed these lines and principles for public expenditure management.

After the Socialist Government came to power in 1982, the Ministry for Economy and Finance required departments to formulate their budget by programs. By the end of the 1980s, the emphasis of budgetary reform had shifted from budgetary format to budgetary process. At the beginning of the 1990s the intention of the Ministry for Economy and Finance was to modify the rules of the budgetary game to encourage budget for results and multilateral negotiations and to integrate the roles played by budgeters, auditors, and other actors. Further improvements are currently envisaged (i.e. Budget Stability Laws and New General Budget Law).

The recently approved Budget Stability Laws (2001) represent the government willingness to consolidate a period of budget discipline started in 1996. So far the Spanish government has been successful in controlling public deficit and spending at the aggregate level (see next graphic). The sustainability of sound public finance once the economic cycle changes is still in question. Budget Stability Laws

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9 R. Gunther, 144
10 J.Borrel, “Bases y Estrategia para una reforma presupuestaria de las fases del proceso financiero” (Madrid: INAP 1983), 1-3
11 Internal document of the Ministry of Finance presented at the OECD, Senior Budget Officials meeting, in Paris, May 2001
are aiming to institutionalise discipline spending behaviour and culture in the budget procedure.

At a des-aggregate budget management level, programming and budget for results are expected to complement these initiatives. These reforms are reviewed in this report, along with offering a general overview of current budgetary process.

2) BUDGET PROCESSES AND BUDGETARY CHANGES

2.1. General Overview: clear legal procedures for a complex budget reality

The Budget formulation is set in a long-term macroeconomic scenario within the framework of the Stability and Convergence Program designed for fulfilling the compromise with the Economic and Monetary Union conditions. This Program establishes a long-term frame of reference for allocating resources. These conditions have been reinforced in December, 2001 with two Budget Stability Laws (one for the general government and another for other levels of government).

These Stability Laws are based around four basic principles:

a) Stability: Defined as a budget balance or surplus position. Public Sector deficit will always be an exceptional situation requiring a correction plan to come back to budget stability.
b) Long-term projection: This introduces a budget vision in line with the idea of continuity and sustainability of the Stability concept. On the other hand, it promotes a medium term focus for overcoming the limitations of annual budgeting.

c) Transparency: The Budget presentation and Annual reports will contain enough and appropriate information to allow the follow up of compliance with the principle of budget stability. This reinforces Parliament intervention in the process of budget formulation.

d) Efficiency: This principle allows the connection of stability at the aggregate budget level with public expenditure management at the disaggregated level.

From the point of view of the budgetary procedure these laws present two main innovations: (a) In the first four-month period of the year, Government will set in the objectives of budget stability for the three following years, for the whole public sector and also for each level of government, (b) Government will fix the limit of non financial expenditures of General Government Budget for the following immediate year, in line with long term stability objective. The 2 % of this limit will be allocated to a Contingency Fund in order to deal with non discretionary financial needs, not foreseen in the Budget. The objective of this Fund is to avoid the expansive tendency to introduce new expenditures through approval of credit modifications during budget execution.

As outlined by law Government's agreement fixing stability objectives will be sent to the Parliament for debate and approval at the beginning of the year. Government’s agreement sent to the Parliament will be also accompanied by long-term macroeconomic forecast scenario included in the Stability Program. This legal framework promotes a long-term planning as a frame of reference to elaborate the annual Budget. Therefore, previously to the process, and in order to elaborate the General Government Budget, the Finance Ministry prepares scenarios of long-term revenues and expenses detailing them by each budgetary policy (see budget calendar in next table)

The formal budgetary cycle is clear and structured with well-defined phases. Broadly speaking the budget formulation requires the estimation and allocation of revenue and expenditure according to law and government priorities, and the implementation phase requires the monitoring of budget execution according to established policies and regulations. Before the first of May spending ministries should assess and present, through their budget offices, their annual requests for funds. The Ministry for Finance through the Directorate-General for the Budget then revises these requests and balances them against revenue estimates according to economic forecasts. The Ministry of Finance should also integrate the programs and projects for public investment within the budget. The Draft Budget is submitted to the Council of Ministers for discussion and approval and before the first of October sent to Parliament as a draft law for approval or rejection. After

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Ley General Presupuestaria (General Budget Law), 1.091/1.988 Art. 54
final approval by Parliament, it becomes law on 1 January.

The Directorate-General of the Budget and the General Audit Office (Intervención General de la Administración del Estado), both belonging to the Ministry of Finance, are responsible for the follow-up of budget execution. “At the end of the fiscal year, in order to allow the Directorate-General for the Budget to formulate the expenditure programmes for the following year, the General Audit Office audits budgetary management with the aim of clarifying the value obtained out of resources distributed to goals of each Department and the degree of achievement of its objectives.” At the end of the process, the Court of Auditors, responsible for external audit and control, examines the budget accounts and the quality of budgetary management within the government on behalf of the Parliament.

However, as in many other countries, the process of formulating the budget is much more complex and interactive than the clear-cut methods prescribed by law or suggested in official reports. Let us now take a closer look at the reality of budgetary process reviewing the roles, competences and relations of main participants, along with financial management reforms undertaken.

2.2. Budgeting within Spending Departments: Complying with procedures and guidelines from government and the Ministry for Finance

The budget procedures starts with the presentation of the main framework and general budget policy by the Ministry of Finance to the Council of Ministers at the beginning of the year. Before the end of January government objectives on budget stability are agreed and transmitted to Regional and Local Governments through the Council of Fiscal and Financial Policy and the National Council of Local Government. These Councils are the forum for discussions and consensus building between Central Government and Subcentral Governments. Proposals for budget and stability objectives and limits on spending aggregates are prepared by the Ministry of Finance. Before the 15th of March budget objectives and spending limits for each level of government are sent to the Parliament. By the end of April the Parliament should approve or reject the budget stability objectives (see table Budget Calendar). Subcentral Governments are independent to organize their budget procedures with the only limitation to comply with the Stability and Convergence Program.

At the Central Government level, the Ministry of Finance prepares and instructions (budget circular) to be sent to spending Ministries by early May. One

13 Preliminary section and final note 5.3 of the Order of 21 April 1986 from the Ministry of Finance, regarding the instructions for the formulation of the State Budget for 1987, BOE No. 98 of 24 April, 1986
of the main institutions for formulating the Draft Budget at Central Government level is the meeting of the Commission for Spending Policy (“Comisión de Políticas de Gasto”). The Minister for Finance is the chairman of this Commission. Each Ministry is represented by its Minister or a main Secretary of State. The Secretary of State for Budgeting and Spending also participates in this Commission assisting to the Ministry of Finance

**CALENDAR FOR THE PROCESS OF BUDGET FORMULATION (BUDGET YEAR 2003)**

| 1. | Presentation of main phases and framework of budget formulation to the Council of Ministers | 25 Jan before 31 Jan before 1 Mar 8 Mar 15 Mar Before 30 Apr 3 May May June June-July up to 31 July 2 Aug and 13 Sept before 1 Oct 1 Oct-31 Dec |
| 2. | Government Agreement on Budget Stability Objective | |
| | ○ Transmission of Budget Stability Objective proposal for regional Governments (Comunidades Autonomas) to the Secretary of the Council of Fiscal and Financial Policy | |
| | ○ Meeting of the Council of Fiscal and Financial Policy and National Council of Local Government (Reporting on Budget Stability Objective to regional and local governments) | |
| | ○ Proposal of Budget Stability Objective and estimated limit for annual aggregate spending | |
| | ○ Approval of Budget Stability Objective by Council of Ministers and Agreement sent to Parliament | |
| 3. | Parliament Debate on approval or rejection of Budget Stability Objective and fix legal limits on spending aggregates | |
| 4. | Budget Circular sent to Ministries | |
| 5. | Meetings of the Commission of Spending Policies | |
| 6. | Approval of Budget Scenarios 2003-2005 | |
| 7. | Round of meetings at the Commissions for Program Analysis and updating budget scenarios | |
| 8. | Formulation of Draft Budget | |
| 9. | Debates at the Council of Ministers | |
| 10. | Draft Budget approved and sent to Parliament | |
| 11. | Debate and approval of Annual Budget Law | |

The scope of the meeting is very general. The main objective is that the Ministry of Finance transmits government spending policy to spending
departments. For instance, government spending priorities for 2002 were focused on 7 policies: Investment on infrastructure; Education; I+D; Pensions and retirement; Justice; Employment; and Defense. At this phase there is not yet a detailed quantification of budget estimates. In general the Commission for Spending Policy set spending prioritization and a first global distribution of resources within a specific framework of reference or macro-economic scenario that try to make compatible trends in aggregate current expenditures and public investments, with estimated GNP, inflation, etc.

Almost at the same time that this meeting takes place, instructions to formulate the budget are published and sent by the Directorate General of the Budget to each ministry. Budgetary offices within each Ministry together with spending units start estimating financial needs for next and two following years. A process of budget formulation normally begins within each ministry by a meeting among senior officials of the ministry (the Under-Secretary, Director-Generals, and the Head of the Budgetary Office of the ministry), at which general instructions, dates, and schedules are transmitted. Each budgetary office gathers and consolidates budget information on program objectives, activities, and financial resources used at spending Departments. Afterwards, budget negotiations with the General Directorate of Budget take place bilaterally and at Commissions for program Analysis (see next section 2.3)

From March to June the budgetary office in each ministry updates long term scenarios (already projected at the end of previous year) and formulates preliminary budget scenarios in collaboration with spending units (general directorates and autonomous agencies), usually under the supervision of the Under-Secretary. The budgetary offices should, according to law, evaluate spending programs. However, in fact these offices cannot do so. Most of their work involves fulfilling the requests by the Ministry of Finance. Within spending Departments budgeting is perceived as a constraint rather than a policy instrument or a management tool. Interest in the budget, as a document or a process, is formalistic and reactive in order to avoid problems and cuts from the Ministry of Finance. Budgetary offices only possess sufficient resources to carry out operational budgetary routines and to ensure that budget formulation within spending ministries follows the procedures and instructions requested by the Ministry of Finance. However, one important function of a budgetary office is to provide technical support to senior representatives of its ministry during the process of negotiations on budget formulation within the Ministry of Finance. Other units within each department may be involved in in-depth evaluation of plans and

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14 M. Hernández, *El Proceso de Presupuestación, control e información del Gasto Público en España*, paper presented in Managua in a seminar organized by the Ministry of Finance of Nicaragua, Instituto Centroamericano de Administración Pública (ICAP) and the European Institute of Public Administration. Sponsored by the European Commission, March, 1992, 13
sectoral policies that might be used during the budget procedure. Concrete statement on this would require empirical research. In general evaluations in departments are more professionally oriented than based on a systematic and overall interdisciplinary approach.

2.3. Budgeting within the Ministry Finance: Efforts Toward Program Budgeting and the Integration of Budgetary Actors

Since 1982, the Ministry for Finance has attempted to rationalize the budget system. Financial management and budgetary reforms have focused on the introduction of program budgeting, the computerization of budgetary procedures and new methods for financial control and auditing. Until 1988, the main advances were the computerization of procedures and the development of a new system of financial control. There were also relevant changes in budget format and some elements of program budgeting were introduced, such as the definition of objectives, performance measurement, etc. There is widespread recognition that the new budget format has now richer data and more relevant information. Performance data and management measures introduced in the budget are mainly focused on outputs rather than outcomes. The budget still offers limited value for decision-making within spending ministries.

Since 1988-89, several innovations have been introduced to modify the budget process itself, and a new system for monitoring and reviewing program execution has been implemented. With regard to the budget process a main direction of reform at the beginning of the 1990s aimed to shift from bilateral to multilateral budgetary negotiations. To achieve this the Commissions for Spending Policy were formally institutionalized in 1989. Sectoral policy issues depend in a more direct way on other commissions subordinated to the Commission for Spending Policy referred to as the Commissions for Program Analysis (Comisiones de Análisis de Programas). These commissions are of a more technical nature (see table of Budget Calendar). They start functioning after the budgetary offices present first figures to the Ministry of Finance. They are chaired by the Secretary-General of Budgeting and Spending. Their task is to distribute budgetary funds among the different spending programs with in a general policy sector and to review their objectives according to the spending priorities set by the Commission for Spending Policy. The aim is to allocate resources once the objectives proposed by the ministries and the spending units have been accepted. The intention of the Ministry of Finance in creating these commissions was to make them work on a multilateral basis to avoid bilateral confrontation with each spending ministry. It intended to transfer responsibility for reducing expenditure to them. Heads of spending Departments should negotiate among themselves and distribute funds among different budgetary programs in a context of “zero-sum negotiations.” In fact they are bilateral meetings between the Directorate General of the Budget and Spending Departments. Meetings are chaired by the Secretary of State for Budgeting and
Spending or the General Directorate of the Budget. Spending departments are represented by a Secretary of State and the Under-Secretary and several Director Generals

Regarding the new budget program follow up system a sample of budgetary programs is annually selected for a systematic follow-up by delegated auditors at spending Ministries (auditors with authority delegated from General Audit Office) examining the extent to which program objectives have been achieved. In addition, the Ministry of Finance has formulated general guidelines to be observed by spending units for the new follow-up system (OM, 11 April 1989). Recent selective experiences in carrying out programs are opening the way for other programs (see next box).

### Budget follow up of special plans and programs

Every year the budget law includes a list of specific programs chosen for special follow up and financial control. This initiative includes not only Administrative services but also public enterprises. In the year 2002 the main programs are:

- Prisons
- Courts of Justice
- Traffic Safety
- Social assistance to immigrants and refuges
- Water infrastructure
- Ferriway Transportation infrastructure
- Road Transport infrastructure
- National plan for irrigation
- Plan for R+D
- Etc.

Furthermore there is a special follow up of corporative plans of some public enterprises:

- Port Authorities
- Airports

The General Audit Office (Intervención General de la Administración del Estado) directly or through delegated auditors carries out audits on the selected budgetary programs to evaluate the execution of the budget within the context of
the new budget format. The intention of the General Audit Office is to assess the
difficulties and limitations inherent in the current system for assessing efficiency
and effectiveness of public managers. This mainly involves identifying ambiguities
in the objectives defined, the extent to which the performance measures proposed
are relevant, the weaknesses of information systems, etc. The innovations proposed
also implied that the General Audit Office, should participate in the formulation of
the Draft Budget. “.... the General Audit Office undertakes the auditing of
budgetary management required to determine the adequacy of the human and
material resources currently available for achieving the goals of each
Department.”15

One main aims for this effort of selective follow up and evaluation of budget
programs by the General Audit Office is to provide information useful for
reallocating resources. However this has proved to be more difficult in practice
than expected. Although integration between control/evaluation functions and the
budgetary functions has improved, this is not yet consolidated. Officials of the
General Audit Office participate in meetings with the Directorate-General for the
Budget during the formulation of the budget, but audit reports do not provide
relevant information for budgetary negotiations.

Generally speaking, the formulation of the budget is essentially based on
marginal decision making and following government priority and guidelines. From April to June budgetary offices in spending ministries and the Directorate-
General for the Budget remain in constant interaction with the aim of reaching
agreement as to the final amount to be allocated to each program and budgetary
concept. Budget figures are estimated according to the base of the previous budget.
Not all requests made by spending ministries are within the limits imposed by the
Ministry of Finance. In order to limit requests, officials of the General Directorate
for the Budget initially review the requests very broadly and then contact spending
ministries. The ensuing negotiations are coordinated by one of the different Deputy
Director within the Directorate-General for the Budget according to the nature of
the credits concerned: General Affairs, Social Affairs, and/or Economic Affairs. At
the end of July and/or beginning of August, the budget figures and the negotiating
positions are nearly in their definitive form, ready for discussions at the Council of
Ministers (see table of Budget Calendar)

2.4.-The Process of Appeals: Solving Conflicts through Hierarchical
Arbitration

Should no agreement be reached between spending Departments and the
Directorate-General for the Budget, responsibility for the settlement of conflicts is
passed on to the Secretary of State of Budgeting and Spending. The appeal process

15 Ministerial Order of 21 April, 1986, Official Journal of 24 April
varies according to each case and year. At the first level, the officials of the budgetary office of spending ministries negotiate directly with the Deputy Director-Generals for the Budget at the Ministry of Finance. These Deputy Director-Generals study the proposals in light of reports from their officials. These reports provide an initial review of the documentation. In the case of failure to resolve conflicts at this level, the Director of the Budget participate directly in the negotiations. The requests are then clarified and points of conflict are identified. In general, the Director-General for the Budget may decide or advise regarding to the most likely decisions within the next hierarchical stage. Yet positions are normally firmly presented and strongly defended. The emphasis of the debate is mainly placed on requested increments which are beyond the limits and criteria anticipated by the General Directorate for the Budget. The outcome of these discussions is described in reports drawn up for the Under-Secretary of the spending ministry and the Secretary of State for Budget and Spending and in which the conflicts found and the position of the General Directorate for the Budget are detailed. The Director General for the Budget and the Secretary of State for Budget and Spending play mainly a technical role, although this is, in itself, fairly important. A number of appeals for the arbitration of most politically sensitive issues are sent for decision by the Minister of Finance. Negotiations are not definitively concluded until the Secretary of State for Budget and Spending, the Minister for Finance or the Council of Ministers approve the decision.

At the beginning of August, the Council of Ministers debates the first detailed version of the budget. It discusses the main lines of the budget and the macroeconomic updated proposal from the Ministry for Finance. The Council of Ministers run several debating sessions and approves Draft. This discussion is carried out within the framework of Budget Stability Objectives set at the beginning of the year. During the month of September, meetings are held within the Council of Ministers in order to take into account latest issues concerning changes in the economy. (see table Budget Calendar).

The Council of Ministers debate and approves the Draft Budget, but usually by the time proposals are lodged within the Council of Ministers, most solutions have already been anticipated. The Minister of Finance sends a Draft Budget proposal to the various departments and if necessary holds bilateral meetings with each minister before consulting the Council in order to resolve remaining conflicts. If disagreement is passed on to the Council of Ministers, ministers involved present their positions and debate the issue multilaterally. However, in general, agreement is achieved during informal meetings prior to the session of the Council of Ministers according to the interests of all ministers involved, and if necessary in the presence of the president who has the final decision.
2.5 Budget debate at the Parliament

Once approved by the Council of Ministers, the Draft Budget is sent to the Parliament (Las Cortes). Formal Parliamentary debate is clear and well structured. The Plenary of the Congress of Deputies (one of the two Parliamentary Chambers) discusses the amendments to the entire Draft Budget. If these amendments are accepted the Draft is sent back to the Government. If they are rejected the Budget Commission examines budgetary documentation. A small committee of the Commission, the so-called Ponencia, prepares a report on the amendments to the Draft Budget. Afterwards the Commission debates the Draft Budget on the basis of this report. At this time there are hearings which high officials are requested to attend. Finally the Plenary debates the Draft Budget section by section according to the organic (no program) structure. The regulations of the Congress (10 February 1982) demand discussion or debate by sections, which correspond to the organic structure by departments. All amendments implying an increase in expenditure on one budgetary concept (item) must be presented in combination with a parallel decrease in another concept of expenditure in the same section (department). The formal rigidity of the process guarantees the maintenance of control by parliamentary groups over their members, the centralization of power within the Group of Speakers (Junta de Portavoces), and the concentration of jurisdiction relating to the management of the process within the Board of the Congress (Mesa). They all serve to assist the majority in maintaining power and also bar the way to any possible concrete debate in the Parliament and even within individual parties\(^\text{16}\). Generally, there is majority or close to majority one party government. Since 1978 Spain is in a process of political decentralization. Relevant extra-parliamentary budget debate and agreements are also held and achieved by central and regional governments. All these factors might have been preventing the development of performance debate in Parliament.

On 30 November, the Draft Budget is sent to the Senate (second Chamber of the Parliament), where it is debated by special urgent procedure for twenty days, including Sundays and holidays. Even before this date, the members of the Senate have been studying the budget and hearing top-level officials. The process is very similar to that in the Congress, although much shorter. Budget discussions in both Chambers of the Parliament are not focused on performance information. By the end of the natural year the Annual Budget Law is normally approved (see table Budget Calendar).

3) AUDITING AND EVALUATION

Other financial management functions have also been reoriented for encouraging result focused management. Since 1982, government has undertaken a series of reforms on auditing and evaluation. Again let us describe and assess their

impact from the perspective of the role played by Departments responsible for these function and their main reforms.

3.1.- Auditing and Evaluation in Spending Departments:

Until 1990, there were no internal auditing services under line managers in departments. Spending Departments normally had neither financial information systems complementary to those required by the budgetary procedure, nor statistics for the follow-up of performance and for determining the degree of goal achievement. The number of Ministries with own internal audit departments is growing. Internal units for evaluation could also play an important role in policymaking (not particularly in the context of auditing and budgeting) within certain ministries. Some Departments of an economic or investment nature have performed indepth studies and cost-benefit analyses. Although these studies are used in formulating ministerial policy, their influence on budget procedures has not usually been direct. In the 1980s, evaluation methodology was not systematically applied, although some elements were used. Program evaluation of emerging policies has been limited. Before 1990s it was only very rarely that program assessments were concerned with social impact. Measuring the productivity and/or the impact of the social services were perceived as difficult and costly. Today there is qualified personnel within the Administration, with enough experience to carry out evaluations. However, most of this personnel have a professional orientation rather than a global or programmatic one.

Program evaluation is now mushrooming in Spain. Efforts of evaluations are spread among different policy sectors. This is due to the influence of some important factors: mainly the European integration, the regional decentralization, and increasing demands for affective public services. Budget restrictions have also had an influence on the growing demand for program evaluation. Traditionally, main efforts to develop evaluation and analysis in Spain have been started within Government, but the recent role being played by universities and regional and local governments has been essential and is increasing. The external pressure from the European Commission seems to have triggered the race for program evaluation.

Since budgetary offices within each ministry estimate budgetary needs they could play an important part in program evaluation. But, according to law, the budgetary office is also responsible for a considerable number of other functions. It has to: (1) Fill in instructions on budgetary forms; (2) Formulate the draft budget for its department, coordinate autonomous agencies’ budget requests.

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consolidate these budgets within the budget of the ministry and then send all this information to the Ministry of Finance; (3) formulate objectives setting output targets and performance indicators, and program expenditure, including the drawing-up of multi-annual projections; (4) follow up and evaluate programs; (5) report on and manage the proposals for budgetary modifications taking place during the fiscal period with regard to services and agencies; and (6) report on ministerial projects and resolutions which influence public spending.

Spending Departments could contract out program evaluation to universities and/or private specialists in this field. Traditionally, however, social and political science departments in Spanish universities have been institutions for teaching rather than for research. Even “scientific achievement” has been perceived in a philosophical and theoretical fashion, allowing empirical research (field work) to appear second rate and ancillary with little scientific reward. In these circumstances, it is easy to understand the late introduction of program evaluation (especially public policy-oriented program evaluation) in curricula and research programs. Nevertheless, by mid 1990, several programs in public administration are offering courses on program evaluation and conducting research in this field. Although mushrooming, evaluation in Spain is still in an early phase of development.

As in many other countries, even if some kind of evaluation is carried out within Departments or in external research centers or universities, the allocation of resources is mainly shaped by negotiations about the additional funds demanded by spending ministries around the base of the previous budget and according to priorities established by government on specific policies as mentioned in previous sections.

3.2.- The General Audit Office: Moving towards program audit reporting for Budgeting

The General Audit Office (Intervención General de la Administración del Estado) belongs to the Ministry of Finance. It has traditionally carried out the function of ex ante control to guarantee compliance with financial rules of every spending decision in all departments. The work of the General Audit Office is based on an extensive network of delegated auditors (Interventores Delegados). These are senior officials of the Ministry of Finance located within the spending ministries. They run offices with small teams of financial management experts (mainly with accounting background). The task of delegated auditors is to check all administrative decisions which have financial consequences. His signature is

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necessary to validate proposals of expenditure and payment. Simultaneously, delegated auditors monitors budget execution in coordination with the Directorate-General of the Budget to ensure that spending does not exceed the existing credits and examines the requests for supplementary credits. Until mid-1980s, the forms of control exercised by delegated auditors emphasized the concern for the financial regularity of the execution of the Budget. During the 1990s, new tools and methods (statistical random-sample, audits, etc.) were introduced and developed to reduce the heavy workload of delegated auditors and to complement traditional controls. The General Audit Office could provide valuable information for the use of officials of the Directorate-General for the Budget, either based on the experience and knowledge of the delegated auditors working within each ministry or based on the program audits undertaken since 1990. Reports from delegated auditors could be very relevant for officials of the Directorate-General for the Budget when examining the requests from the spending ministry within which the delegated auditors in question works.

Since 1987 the General Audit Office (General Audit Office) has been mandated to audit budgetary programs so that the appropriateness of the resources in relation to the objectives of each Department may be estimated. Its functions include: (1) examining whether the financial information is presented according to accounting principles (Financial Auditing); (2) reviewing whether the management of public funds respects current law (Regularity Auditing); (3) evaluating whether management has been developed economically and efficiently (Efficiency and Economy Auditing); and (4) evaluating the degree of effectiveness and achievement of objectives (Auditing of Results).  

Several manuals for program audit published by the General Audit Office late 1980 and early 1990, set out procedures to allow the assessment of whether “the objectives, policies and procedures of the Department under analysis are rational and appropriate, the identification of the reasons for non-continuous and systematic follow-up of programs and objectives, and the identification of the information required for improving the budgetary system.” The General Audit Office also set out the requirements for effectiveness and efficiency auditing. Among other things, the Auditor General declared it necessary that “objectives are clearly defined... that internal control is adequate for the follow-up of objectives... and that the objectives may be related to resources.” Often, these conditions are still not fulfilled. The General Audit Office found it very difficult to complete the reports according to the norms prescribed by this manual.

\[22\] IGAE, Normas de Auditoría del Sector Público, Ministerio de Economía y Hacienda, Madrid, 1983,11 et seq
Latest more comprehensive manuals identify delegated auditors (delegated auditors) as responsible for budgetary programs auditing. Their reports are sent to the General Audit Office and then to the Directorate-General for the Budget. So far, several programs have been selected as pilot cases for budget program audits, but so far the outcome has not been as successful as expected. Several weaknesses in integrating the spending managers with the General Audit Office and the Directorate-General for the Budget make difficult further progress: lack of political support, weak cooperation from spending managers, etc).

It may also be argued that the work to be carried out by delegated auditors (delegated auditors) is far too extensive and complex. Even if it is assumed that objectives, measurements, and information systems are well designed and functioning, it is very difficult for this work to be carried out only by delegated auditors. They usually run small offices. Questioning, redesigning, and implementing internal information systems for goal achievement, as well as other components of integrated budgeting, require great effort, a large amount of resources, and also demand new know-how and skills. This is particularly so if one considers that, traditionally, inspection procedures in Spain have focused on guaranteeing control rather than organizational design and learning. The new guide entitled: “Guía de Control Financiero de Programas” proposes new solutions. Some learning has been achieved and the capacity for integrating the main budgetary actors (budgetary officials, auditors, public managers) is being gradually developed.

3.3.- The General Inspectorate of Services: A Push for Auditing of Administrative Procedures

Since 1987, the General Inspectorate of Services has become another important unit for internal control of administrative procedures. It is located in the Ministry for Public Administration and has traditionally been a unit for the inspection of formal compliance with respect to predominantly personnel and administrative procedures. In the mid-1980s, a study led by the General Inspectorate of Services on Spanish Administration detected several weaknesses, particularly the lack of organizational analysis and evaluation. In response to this problem the General Inspectorate of Services indicated the need for what was referred to as “Inspecciones Operativas de Servicios”. This involves scrutinizing and/or auditing standard administrative procedures. These General Inspectorate of Services inspections include making recommendations for improvements within the units analyzed. The work is carried out by teams from the Inspection Service and the unit under inspection, which are also responsible for implementation of recommendations. The General Inspectorate of Services does not apply program evaluation proper, but reviews and scrutinizes on the dimension of personnel,
formal structures, the rationality of procedures, the reduction of red tape, etc. The Ministry for Public Administration has recently published a White Book for Administration reform (2000) with proposals for further developments in the field of decentralization, results focused management and public service quality control.

3.4 The Court of Auditors: A Judicial Form of Control

This court carries out traditional external financial control on behalf of Parliament by examining and analysing the General Ledger of the State. At the end of each fiscal year the government sends its accounts to the Court of Auditors for the court to formulate the annual report on the General Ledger of the Government, which is debated by a Joint Commission of the Congress and the Senate. Should Parliament not approve the report, the Court of Auditors is required to present a new one. However, the utility of this audit of the General Ledger is limited. The court has traditionally carried out such examinations from a judicial and formal perspective without paying attention to the soundness of the management of public sector spending. The members of Parliament have neither the time nor the technical expertise necessary for a real debate, and the time lag between the end of the fiscal year to which the Ledger refers and the debate robs the exercise of any interest.

For these reasons, the Court of Auditors is not particularly useful to Parliament in evaluating government performance and debating the formulation of the following year budget. In fact, the Parliament does not approve the spending management of the Government, but approves the General Ledger as a formal document, i.e. financial regularity. The information presented in the General Ledger is not particularly relevant to the search for efficiency and effectiveness. Since the 1980s, some legal changes were introduced. New laws of 1982 and 1988 relating to the Court of Auditors established efficiency and effectiveness as part of its audit scope. These changes have proved to be insufficient. Even if it was able to carry out efficiency and effectiveness audits, the time taken for its reports to be considered in Parliament would render its work of historical value only.

4) PERFORMANCE FOCUSED MANAGEMENT IN DECENTRALIZED GOVERNMENT ENTITIES

4.1.- General overview

In the last two decades there has been an increasing number and dispersion of decentralised government entities. To stop the increasing dispersion of

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decentralized government entities, a review has taken place in accordance with the new Law of Organization of 1997 (Ley de Organización y Funcionamiento de la Administración General del Estado), so called Law of Organization. This Law established a more simplified and global classification for most general government entities. They were broken down according to two types: “Organismos Autonomos”, OA, (Autonomous Bodies with Administrative functions) and “Entidades Publicas Empresariales”, (Public Entities providing services or goods susceptible of transactions). The former function under Public Law and the later under private law unless exceptions for specific functions are explicitly set by law (i.e. on budget regimen, strategic decision making, etc.)

The law of Organisation, (Ley de Organización y Funcionamiento de la Administración General del Estado), has reclassified government entities and has set a new general framework of rights and duties for government entities established in past years. If they are not specifically excepted by law, they function under general government regulations. They are created by the Parliament. Their statutes are approved by the Council of Ministers, providing global parameters for their functioning and internal organisation. They are autonomous to operate under the guidance of a Ministry. In exchange for this freedom from general government regulations they are accountable before their Ministries for policy implementation and management results.

4.2 Financial management regime and Result focussed management

The overall financial management legislative framework of government related entities is the General Budget Law (Ley General Presupuestaria). This and other specific budget legislation (Leyes Anuales de Presupuesto, Ley de Contratos, etc.) cover budgeting, financial control, public procurement and other financial management procedures. This financial framework is generally applicable to decentralised government entities, unless there exist specific exceptions approved by the Parliament.

Every year the Annual Budget Law identifies with the necessary detail the entities under general budget rules and those with specific financial management treatment. Autonomous Bodies with “Administrative” roles are fully ruled as established by the General Budget Law. Other entities are to be managed under their own specific legislation and private law, or by the General Budget Law whenever it is explicitly set by law or, on a supplementary basis, for whatever issues not covered in their own Statutes.

Proper decentralisation and autonomy of government entities depends on an effective functioning of this monitoring system that allow the adaptation of management control and accountability systems of government entities. Performance monitoring of spending programs is the basis for reporting on results; setting priorities among alternative spending proposals, and reallocating resources.
accordingly. All government entities have to submit annual reports to the Council of Ministers, through their “parent” Ministry.

Government decentralized entities are also controlled by the General Audit Office (Financial controller at the Ministry of Finance) reporting to the Council of Ministers. Financial controls on autonomous bodies are done in the same manner and similar procedures than General Government ones. Ex ante control on all spending decisions is executed by the General Audit Office representative (delegated auditors) in each autonomous body. Public entities are only subject to ex post audit of their financial management performance. They may also be audited by external private firms. Annual information and accounts of these entities are subject to external the control of the Court of Auditors (Tribunal de Cuentas), reporting to the Parliament.

In general, performance measurement monitoring systems of government entities have substantially advanced in the last decade. But improvements differ depending on each ministry and entity. Further comparative empirical research is needed on this issue. Improvements in the field of performance measurement, assessment and budgeting are demonstrating to be more difficult than expected.

In the last years, Spanish governments have tried to improve the efficiency of its public sector through a more professional civil service and organisational restructuring, legal rationalisation, and privatisation. A recent step forward in Spain has been the approval by law of the obligation of the Government to report to the Parliament on the results of budget programs and plans of activities selected to be monitored (Ley 21/1993). However, as in other countries, government reorganisation has proven to be a longer and more difficult to manage than expected. Although traditionally strong, oversight bodies and central co-ordination mechanisms need to be reinforced to provide the effective result focused feedback for public expenditures management.

5) CONCLUSIONS: GENERAL ASSESSMENT AND LESSONS LEARNED FOR RESULT FOCUSED MANAGEMENT IMPROVEMENTS

Up to the beginning of the 1980s, the main concern of the Ministry for Finance was the financial regularity of spending. After 1982, budgetary reforms focused on changing the budget format (program structure) and later the process of resource allocation to move from bilateral to multilateral negotiations and the integration of auditing into budget formulation procedures, paying special attention to performance to be achieved by selected programs. It was not until the beginning of
the 1990s that these reforms began to yield some benefits. It is widely accepted that the new budget format offers improved reclassification and more information on output performance. However budgetary process still needs encouraging the integration of its main actors (budgeters, auditors, and line managers), and accountability for results are still in a phase of development. Up to now, budgeting reform in Spain has been focused on operative management matters. The concern has been on activities and outputs rather than outcomes planning and policy analysis. There is now a renewed interest on priority-setting for better budgeting and auditing by the General Audit Office has introduced efficiency and effectiveness criteria, mainly into the auditing of public enterprises and autonomous agencies.

New efforts need to be done to develop performance monitoring, program evaluation, and financial management capacities within spending Departments. In the last few years, due to the pressure from the EU the capacity to do these functions is gradually improving.

Most organizational conditions for effective coordination of budgeting and auditing are already satisfied. The main financial management units Directorate-General for the Budget and General Audit Office belong to the Ministry of Finance. They are both responsible to the Secretary of State for Budget and Spending. The sources and types of information they use are similar, and the financial data base is the same. Annual Budget Laws demand the integration of budget formulation and auditing. Furthermore, technical skills of the personnel working in these two units are alike. Officials holding higher positions belong to the same professional group of civil servants and have very similar backgrounds. However, performance follow up and assessment is not sufficiently linked or used for budgeting.

An explanation of the limited success of the results focused budgeting is the weak or not continuous political support. During the 1980s, there was high level impulse and willingness within the Ministry of Finance to support the use of result focus criteria in budgeting. However, this interest has been neither permanent nor shared by government or Parliament. The success of future budgetary reforms, including budget for results, will require highest level political support to guarantee further development. But this will not be enough.

Furthermore, some attention will have to be paid to behavioural and cultural values. It is beyond the scope of this paper to deal comprehensively with the incentive system actually influencing spending behaviour. But future steps for a

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results focussed budget reform should take into account, among others, the following conditions:

1. When introducing changes, budgeting should not be assumed to be a neutral and technical exercise of economic/financial prediction and/or a legal requirement. The reforms have been centralized and tried to be imposed from a technical ideal solution on everyone. A no participative approach to budget reform might build formal compliance, creative budgeting, or even rejection. Budgetary conflict and negotiations are perceived as dysfunctions to be avoided by applying “objective” analysis and decision-making. Uncertainty and conflictive interdependence are identified as dysfunctions of current budgetary practices rather than a reality to be dealt with. Specifying objectives, measuring performance, and structuring the budget by programs may facilitate stability and predictability in budgeting but may not guarantee it. If budget officials and spending managers do not stick to budgetary objectives this is mainly interpreted as their failure, rather than unavoidable uncertainty in the working environment. By programming, it is assumed that risk would be eliminated and need for conflict management would be reduced to almost zero. Although these assumptions may be right for some ongoing predictable policies, many other emerging problems and policies such as environmental and emigration policies demand a different strategy and approach to apply results focused budgeting.

2. Legal tradition should be complemented with the development of performance culture. There is a general agreement on balancing the concern with legality with more concern with results. Spending departments and the Ministry of Finance are willing to encourage change in this direction. However, it is difficult to apply this perspective to budget reform in itself. Efforts by the Ministry of Finance have been based primarily on new laws, and manuals on procedures. New efforts have to be done to assess and improve the impact of the reforms. Efforts for reforms mainly concentrate on redrafting new laws and rules modifying budgeting/accounting and auditing processes. This emphasis is due to both a lack of political support to manage change and a bias towards a normative approach for the reforms.

Spending managers adapt their financial procedures and information system to the requests of the Ministry of Finance but they do not consider them very useful for their own management interest. The main values and elements of the model and strategy of reform are hierarchical relations, assumption of acceptance of the objectives of the reform, reliance on rules and norms, and neutral professionalism. Legalistic and hierarchical traditions are deeply rooted. New norms are proposed in the belief that success may be achieved once the correct norms are formally established and firmly applied. Although the importance of formal responsibility systems should not be underestimated such systems are not sufficient in themselves to ensure the successful development of budgeting and financial management.
3. Departmental reform rationality should be subordinated to collective reform rationality. Cooperation and coordination have not been sufficiently considered. It seems that each promoter of result focused budget and related financial management initiatives perceives these reforms as its sole responsibility and deserves full credit for it. In practice, the management of interdependence for change has not been fully recognised. Effective integration of new management auditing and budgeting by results initiatives has been seriously constrained by lack of incentives (i.e. political support at the highest level) to cooperate.

There appears to be a need for developing inter-organizational capacity for reform. It is very clear to reform promoting Departments the model desirable for better budgeting and financial management. However, it is not known how to implement what is desirable: traditional formal links do not facilitate or encourage change by interaction. The failure to integrate line spending managers into the budgetary process limits feedback. There have been many differentiated reforms and no sufficient effort for their coordination. In the last two decades several executive centres at the Ministry of Finance and the Ministry of Public Administration have been trying to modify their functions and working methods towards management and budgeting for results. Yet, many changes have neither been integrated nor had relevant integrative effects. These initiatives represent differentiated initiatives produced in separate Departments without a global or collective framework of reference for the reform.

4. Enhancing learning capacity. Self-evaluation has not even been considered as a way toward improvement. Budgeting for results represents an ideal budgetary model which facilitate the improvement of management performance. Budgeting for results is perceived as the only solution available and the perfect one for the whole Administration. This explain the across-the-board uniform choice of this budgetary and management model. The applicability of this model to various public organizations and contexts has not been questioned. Budget and management by results is perceived as an universally valid model.

This may also explain difficulties for learning about either how to introduce the model or how to make the model fit into a concrete organizational context. The contingencies affecting both the feasibility and appropriateness of this budget by result model needs to be analysed. The strategy used to implement the budget reform needs more political support, even when the organizational context is appropriate. Lack of capacity to manage change and the hierarchical and legal approach to the reform also may explain limited success. This does not mean that the budget model proposed will always be neither useless, nor inappropriate even if the strategy is correct. This type of budgetary model could fit a context of stability.
and increasing resources. It will not be feasible in conditions of uncertainty (i.e.: emerging policies, ambiguous or conflicting views on objectives, difficult performance measurement, unknown cause-effect relation of program intervention and impacts, etc.).

Forwards steps in result focused management depend on the development of learning capacity and on increasing incentives and political support for reform. For almost two decades, we have seen many innovations within management, budgeting and auditing without there having been attempts to assessing real effects and adapting such reforms. Their limited impact is a widely-accepted fact. Risk avoidance and fear of exposing failure may have been blocking the way toward further improvements. This has promoted some misdirection and organizational confusion rather than learning. Reformers need to be politically led to interacting and Departments should be allowed to experience adaptable models. New models of reforms have to be properly assessed and tested.

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Budgetary Framework in Spain

1) Introduction

The process of reform in which the Spanish budget institution is engaged has as its principal points of reference, budgetary discipline and budgetary balance. Both these attributes have been deemed by the Spanish government to be indispensable prerequisites for the development of fiscal policy conducive to stable economic growth and consistent with our objectives of real convergence within the European Union. In this respect, it can be said that Spain’s fiscal policy successes of recent years must be largely attributed to the institutional budgetary measures adopted since 1996.

The objective of this paper is to present an economic/institutional analysis of the new framework in which Spanish budgetary policy and accounting system are currently formulated, with special attention paid to the legal rules recently approved, in December 2001, on budgetary stability. Both the General Law on Budgetary Stability (LGEP) and the Organic Law Supplemental to the LGEP (LOC) imply an in-depth reform of the Spanish budget institution, in line with the institutional transformation initiated in 1996. From the standpoint of the implementation of fiscal policy reorganized and geared toward observance of the principle of macroeconomic stability, this paper seeks to present an appreciation of the instruments and mechanisms of coordination and incentives incorporated to the accountability and transparency in the budget cycle and to describe the accounting system.


A preliminary question is that of the very relevance of the legal and rules-based treatment of issues related to budgetary discipline and balance. As argued in the previous sections, the content of a set of rules in these areas should serve a purpose of institutional design, apart from the requirements for legal formalization inherent in any state of law. The design of budget institutions should follow the creation of any contractual frameworks for coordination and incentives that make budgetary agents behave in accordance with the overall objectives that a higher-level institution may set as regards budgetary policy.

From the standpoint of institutional economy, it cannot be ignored that if fiscal rules are accompanied by adequate tools for coordination and incentives, they are
an indispensable factor for creating budget institutions that are able to ensure allocative performances consistent with sound fiscal policy and with levels of public action applicable to economically developed countries.

On studying the contents of the General Law on Budgetary Stability (LGEP) and its Supplementary Organic Law, it seems reasonable to believe that their nature as basic codes in the framework of which budgetary policy must be conducted requires, first of all, the enunciation of the pertinent governing principles, which must always serve the stated objective of making effective and efficient management of public policies consistent with the requirements for budgetary stringency, as necessary for achieving stable, sustained economic growth. In the LGEP, the first of these recognized principles is that of “budgetary stability,” which must govern, as seems reasonable, all aspects of the budgetary process—the preparation, approval, and execution phases. The notion of inherent budgetary stability is identified with a budget in balance or, where applicable, in surplus, computed in terms of the national accounts. A second principle is that of a multiyear scenario in which public sector budgets must be prepared, even though such preparation must remain consistent with the traditional annual budget principle as regards approval and execution. A third principle, which is very important for the effectiveness of the disciplinary mechanisms contained in the LGEP, is that of transparency, which makes it mandatory for important information for verifying compliance with the principle of budgetary stability to be sufficient and adequate at the same time that it is accessible and public. The last of the principles included in the draft LGEP is that of efficiency in the allocation and use of public resources. This principle recognizes the importance of making the macroeconomic aspects of budgetary stability consistent with the microeconomic aspects of public management, which make it necessary, in a context of scarce resources, to operate in accordance with the criteria of efficiency, quality, and effectiveness. This recognition gives full meaning to the notion of budgetary stability, sometimes intentionally condemned for its simple form as a numerical expression.

The construction of such an institutional framework as required in both Stability Laws involves recognizing, as stated above, the multi-jurisdictional reality of the public sector. Specifically, the structure of political decentralization, with an intermediate level of government as represented by the autonomous regional governments in addition to the central government and the local corporations, together with their financial interrelations, makes compliance with the stability principle even more difficult. As a result, the disciplinary design of the rules should concern all the budget officials involved, without going against the principle of financial autonomy for the autonomous regional governments, recognized in Article 156 of the Spanish Constitution. This broad-based formulation of budgetary discipline is the only valid one for circumstances such as these, given that the formation of the consolidated balance that is a part of budgetary policy involves all those officials, with their behaviours, on strategic occasions, depending on how they are influenced by the incentive schemes contained in the models applicable to
the decentralization of revenue and expenditure. However, the impetus of an institutional reform such as this can only be attributed to the central government, inasmuch as the Spanish Constitution in its Article 149.1.13 and 18, in conformity with the postulates of fiscal federalism theory, assigns to the central government the role of adopting basic measures of this type, so as to achieve, through the government’s economic policy, the indispensable domestic and external economic stability. Although it is true that in the period 1997–2001 performance in terms of aggregate deficit for all of the public sector operators was successful, it is no less true that the model of bilateral negotiation between each autonomous regional government and the central government lacks the institutional attributes necessary for ensuring its effective conduct over time, especially in economic circumstances marked by reduced growth. Hence, the need to address the creation of a duly institutionalized multilateral coordination mechanism based on values such as transparency and incentives to meet the commitments adopted. Given the organic nature given to the Supplementary Law for the case of the autonomous regional governments, it can be declared, as recommended by the Council of State in its decision prior to the submission of the rules to the Parliament, consistent with the Constitution, in accordance with the principle of autonomy.

Having established the subjective context in which the main budgetary decision makers, necessarily affected by the LGEP in its design of coordination and incentive mechanisms must operate it can be described now the design in question. First, the rules require that budget officials operating at the level of the central government, autonomous regional governments, and local corporations to establish in their budgetary and public spending rules, any tools and procedures that may prove necessary to observe the principle of budgetary stability. The LGEP requires that the national government ensure observance of this principle by all budget officials. Its non-observance seems to be considered through the recognition of exceptional deficit positions that will in any case require an explanation and the formulation of corrective plans. Here, we are in the presence of one of the incentive mechanisms included in the Law, based on the principle of transparency: the cost of giving public notice of deficit recognition.

As regards coordination of the budgetary actions of all levels of government, the responsibility lies, as stated above, with the national government. The latter, by March 31 of each year, will be required to set the budgetary stability objective in a multiyear scenario, and this will cover the next three fiscal years, on an annual basis. This objective setting exercise will have to include the assigning of specific objectives for all the government sub sectors involved: the general administration of the central government, its autonomous agencies, and other subordinate bodies not primarily financed with commercial revenue, entities making up the social security system, the general administration of the autonomous regional governments and its subordinate public bodies and organisms not primarily financed with commercial revenue, and the administration of the local corporations and their subordinate public bodies and institutions with the same financing circumstances. For the purposes of the budgetary stability objectives, public
enterprises and other bodies primarily financed with commercial revenue from any level of government are treated in terms of “financial balance,” with implications for consolidation strategies to prevent or reduce possible losses. In accordance with the European System of National and Regional Accounts of the Community (SECNRC), their financial link with subordinate administrations ensures their control for the purposes of the budgetary stability objectives.

The multiyear budgetary objectives referred to above will be set at the time the macroeconomic framework is being established for the same period, as set forth in the Stability and Growth Program required by the European Commission. They are to be approved by the Council of Ministers and then placed before the Parliament for debate and approval. Once again, this is in keeping with the push for the national government to announce its budgetary policy objectives. These objectives will be assessed annually, at the end of each fiscal year, in a report that the General Intervention Office of the central government administration will forward to the government by September 1 every year. The implications of this control for the government will be clarified in the annual review of stability objectives, given the yearly nature of the estimates.

As regards the budget preparation process, the LGEP and the LOC provide for a series of reform measures of various depths, depending on the area of competences established for each administration. For the central administration, they establish:

1. the obligation to draw up a number of multiyear scenarios of public revenue and expenditure estimates, before preparation of the central government general budgets (PGE), with details of the annual expenditure commitments for implementing the budget policies. They will be required to note any budgetary contingency generated by the legal rules or administrative instruments, the approval of which will be dependent on their compliance with the financial restriction set in the budgetary scenarios in question.

2. the setting of the ceiling on non-financial expenditure for the central government budget (PE), to which annual PGE appropriations must be subject. This expenditure ceiling commitment explicitly and formally adopted by the government at the beginning of the budgetary process in the agreement on the Parliament’s approval of the annual budgetary stability objective, must be applied as a disciplinary mechanism to prevent undesirable incrementalist practices.

3. the establishment of a “budget execution contingency fund” that will be included in calculation of the ceiling on PE expenditure and can facilitate the streamlining of budgetary changes consistent with the financial restriction established for compliance with the budgetary stability principle. For the effective operations of this flexibility mechanism, it is essential for its management to be returned to the Ministry of Finance, which will propose to the Council of Ministers how the credits are to be used, always for meeting the needs of the fiscal year, in a nondiscretionary
way and with no initial contribution. Another efficiency requirement should be the mandatory financing of any change in appropriation (extraordinary, incremental, supplemental, or incorporating) from that fund or through reductions in other appropriations. In no case may the remainder of the budget execution contingency fund be incorporated into other fiscal years. To safeguard the jurisdiction of the Parliament, the approved rules establish that the government must report to the Parliament each quarter on use of the fund. The quantity initially considered for this budgetary section is 2 percent of the approved expenditure ceiling.

4. for the bodies of the state’s general government sector incorporated under public law and not included because of their non-budgetary financing, and whose activity is making them incur losses, the LGEP provides for the obligation to prepare a management report on the causes of the financial imbalance. They will also be required to submit a medium-term reorganization plan with corrective measures.

As regards the autonomous regional governments, the measures included in the LOC for the purpose of ensuring compliance with the budgetary stability principle are as follows:

a. The task of the central government, in exercise of its constitutional jurisdiction, will be to ensure that the autonomous regional governments adopt, within their recognized autonomy, any legislative and administrative measures that may be pertinent for making their budgetary actions consistent with the budgetary stability objective approved by the Parliament.

b. In observance of the principle of transparency, the requirement is established for the autonomous regional governments to provide the Ministry of Finance with any information requested from them to enable the ministry to verify compliance with the budgetary stability principle.

c. Assigning to the Fiscal and Financial Policy Council (CPFF) the functions of coordinating and supervising the budgetary actions of the autonomous regional governments, as the body responsible for liaison between the latter and the central government. In particular: (1) the CPFF is considered the seat of the discussions at which the budgetary stability objective for all of the autonomous regional governments, and subsequently the individual details, will be established every year. The reports on these activities will be essential for the government in the preparation of its consolidated budgetary stability objective; and (2) the CPFF will be the body to which the autonomous regional governments that have not complied with the budgetary stability objective must submit an economic and financial plan for deficit correction in the medium term. Once the CPFF has received a report, it will forward it to the Ministry of Finance, responsible for compliance monitoring.
d. As regards the borrowing capacity of the autonomous regional governments, the traditional source of budgetary instability, the draft LGEP acts on two fronts. On the one hand, it introduces compliance with the budgetary stability objectives as a decisive factor for authorization by the central government of the credit operations of the autonomous regional governments, pursuant to Article 14.3 of the Organic Law on Autonomous Financing, 8/1980 (LOFCA). On the other hand, it creates a public central information office concerning operations of any type carried out by the autonomous regional governments referred to as credit or debt and the assumption of risks and financial charges. This information and notification mechanism will be supplied with data on a mandatory basis by the entire financial sector.

e. As regards public bodies not included in the general administration of the autonomous regional governments because their financing is primarily non-budgetary, the requirement is established for the autonomous regional governments to adopt measures to correct any imbalances that may finally affect budgetary stability.

As an assessment of the institutional design envisaged by the LGEP and the LOC for this territorial area, it is appropriate to point out that the area is adequately covered by coordination and incentive mechanisms for promoting the achievement of budgetary stability, in an attempt to take account of the sharing of jurisdiction between the autonomous regional governments and the central government, established in the Spanish Constitution. The national government can thus exercise its competencies as the body in charge of economic policy, carrying out the primary supervision tasks as regards compliance with the stability objectives. In the model envisaged, this role is carried out using a coordination tool, voluntarily created by the government and all the autonomous regional governments jointly and establishing regulatory powers for ensuring commitments to fiscal discipline in the sphere of competence of the autonomous regional governments. The institutional design thus transforms the bilateral negotiation (central government-autonomous regional government) mechanism into one of multilateral negotiation (central government-autonomous regional governments), with presumable gains in efficiency associated with the reduction in costs derived from strategic behaviour.

As regards the incentive mechanisms, they can be differentiated between two types:

1. the mechanisms based on the notification of budgetary behaviours and on the principle of transparency, such as the creation of the Credit Report Office and the obligation to report on positions of imbalance;
2. those restrictive measures, such as the tightening of debt approval conditions.

Compliance with the constitutional principle of the financial autonomy of the autonomous regional governments seems to have guided this institutional design, discarding in advance the punitive incentive mechanisms, as III as consideration of
its complex enforcement in this domestic environment. The only exception noted, as already done at the local level, was the requirement for the sharing of responsibilities for those cases where non-compliance with the stability principle by the autonomous regional governments can lead to non-compliance at the national level, with the requirement for sanctions as envisaged in the Stability and Growth Pact.

In addition, the expected strengthening of the sharing of fiscal responsibility arising from the new model of autonomous financing approved by the Council on Fiscal and Financial Policy on July 27, 2001 and applicable continuously as of January 1, 2002, can foster budgetary behaviours that are more consistent with the need for matching the principles of financial autonomy and of budgetary stability. This greater durability of the autonomous financing system needs to be supported, so as to reduce the strategic behaviours generated by expectations of extraordinary changes in the resources to be received. The complexity of the institutional design in this area of vertical relations will require a prudent exercise of regulatory development of rules for both the central and autonomous levels.

The last area of institutional reform addressed by the rules on budgetary stability is that of the local corporations. State legislative powers over local finances—Law Governing Local Finances—facilitate this design, insofar as their financial autonomy is constitutionally limited to matters of adequacy and management. The measures envisaged in the LGEP are:

1. Establishment by the government, on the proposal of the Ministry of Finance, of the global budgetary stability objective for all the local corporations together. The difficulty of assessing such a heterogeneous reality as that generated by more than 8,000 corporations of very different sizes existing in Spain means that conditions must be established through regulations to be met individually by these entities. Similarly, state regulations could be used to ensure compliance with the stability principle. The LGEP, following a certain parallelism with the design presented for the autonomous regional governments, assigns to the National Commission on Local Administration a role as coordinating body that should be kept informed of those actions related to the budgetary stability objectives. These budgetary actions must be supervised and monitored by the Ministry of Finance, which can require any necessary information for this purpose.

2. As in the case of the autonomous regional governments, those local corporations that do not comply with the budgetary stability objective established will be required to draw up a medium-term economic/financial plan to correct the imbalance. This plan must be submitted for approval to a plenary meeting of the corporation and then forwarded to the Ministry of Finance as supervisory body.

3. For bodies incorporated under public law and not included in the general administration of local corporations because their financing is primarily non-budgetary, and which incur losses that affect their compliance with the stability principle requirements are established for reporting on the
corrective management measures to be adopted, similar to those envisaged in equivalent cases for the central government and the autonomous regional governments.

4. Last, it must be point out that the LGEP addresses the matter of the use of possible public surpluses within the scope of the General State Budgets (PGE). Establishing a difference between the central government’s general administration sector and the social security system, in the first case it is envisaged that any positive balance upon budget closure will be earmarked for reducing the central government’s net indebtedness, while in the second case, it opts for priority application to the Social Security Reserve Fund, in line with the social agreements on the maintenance of the derived pensions scheme from the so-called Toledo Pact.

3) Public Spanish Accounting

General Law on Budget (General Presupuestaria – LGP) N. 11/1977 establishes the follow structure of the public sector:

- Public Administrations, Autonomous Regions and Local Corporations;
- Autonomous State Bodies: Autonomous Bodies with administrative, commercial, industrial, financial characteristics ;
- Public Financial Institutions;
- State Owned Companies: in which the State or the Autonomous Bodies are the owners of the majority share and/or have the directive control;
- Social security and its entities.

Concerning the budget execution, the document N 1 of the IGAE\(^1\) asserts that it’s necessary to supervise it because its management has to be in compliance with the laws and follow the directives. Moreover, it has to be possible to calculate if the objectives are carried out and how, to evaluate the statement and the services rendering, through financial efficiency and legitimacy controls.

The previous Public State Budget (CGE) can explain as follow:

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<thead>
<tr>
<th>General State Administration</th>
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<tr>
<td>Autonomous Bodies:</td>
<td>State General Budget Administration</td>
</tr>
<tr>
<td>• Administrative</td>
<td>Budget and aggregate states</td>
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<td>• Commercial</td>
<td>Autonomous Bodies:</td>
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<td></td>
<td>• Administrative</td>
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<tr>
<td></td>
<td>• Commercial</td>
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\(^1\) The IGAE depends on the Ministry of Finance and is in charge of controlling public accounting.
State Owned Companies:
- mercantile
- public law entities

Public Entities

Social Security

Annual account of different companies

Annual Account of different companies

Account and budget of Social Security

Source: Amunategui Rodriguez (2000, p.158)

However, this structure had some limits:
- it didn’t include all the public state sector entities and all the relationships with economic-financial state activities and the Autonomous Bodies;
- it was made of a multiplicity of accounts;
- it had one for Administrative Bodies and a different one for commercial, industrial, financial Autonomous Bodies aggregate state.

In 1998 changes were made to LGP with the introduction of a new General State Budget structure. The new structure includes three documents because of the aggregation of three sectors with different types of accounting.

The Ministry of Finance, through the IGAE proposal, establishes the content, the structure and account aggregation principles and criteria.
4) State and Public Accounting Financial Administration evolution process

According to Montesinos Julve and Vela Bargues (1993, 14), the development of the public accounting laws in Spain took place into three steps:

- Administrative accounting (1812-1977);
- Double-entry method implementation;
- Informative systems development and settlement to manage public expenditure.

Since ‘70s, after political changes, some reforms took place in all the society, especially in the Public Finance framework. Up to that moment, public accounting, basically oriented to budget operation register and to budget results evaluation, was developed neither in theoretical nor in juridical field compared to private accounting.

Among the reforms, we can find the budget law about financial public accounting framework, the Law 11/1977, General Presupuestaria (LGP) opening the public accounting harmonization and adjustment path.

According to IGAE document N1, public accounting became “an accounting oriented to budget execution and control achievement, an information system which includes economic, financial and property aspects of Public Corporations..."
activity”, it establishes juridical and economic framework of public accounting and
identifies characters, lines and requirements of accounting information.

The reform pointed out the modernization of accounting method through
double-entry system, who was not included in the General Plan of Public
Accounting (PGCP), the development of an integrate accounting system thanks to
the Accounting Budget Information System (SICOP) in the central administration
and the rebuilding of State Money Order (Real Decreto N 324/86) and in the
operative development through Governmental Accounting Code.

PGCP became the base of the accounting system and was applied to all the
Public Administrations up to 1978.

SICOP is used in the IT to manage administrative laws regarding accounting
procedures. This system was implemented and modified by SICOP2 and the
Accounting Code was replaced by an unique Code for the all General State
Administration to manage all the data in a centralized way.

Moreover, in coordination with SICOP2 the Autonomous Bodies adopted
CANOA (Analytical Normalized Accounting in the Autonomous Bodies) project
to improve the accounting processes.

The objectives are (IGAE: 1995, 114):

• Giving the economic and financial information to get the effective
manage control in order to take decisions;
• Facilitating budget elaboration and showing the differences made in
relation to the executive budget, giving the possibility to check its
efficiency and effectiveness;
• Determining the activities statement to establish public prices and
taxes;
• Elaborating information about the objective achievement.

About local Administration, the reform took place with the Law 7/1985 about
Local Regime Basis and continue with the Law 39/1988 about Local Finances.

About Spanish Regions (Autonomous Communities) Accounting, the
difference with Local administrations is that laws are not the same for the all of
them and they are not regulated by IGAE. Each Community has its economic-
financial management laws.

About public Companies, bearing in mind that their activities are oriented to
goods and services production on the market, their accounting system is based on
the Accounting General Plan (PGC) for the companies (art.127 LG).

5) Public Accounting General Plan in Spain

The IGAE developed a new PGCP (Bylaw of Ministry of Economics and
Finances, 6/5/94).

The PGCP was the consequence of:

• To be part of the EU
• Development of accounting theory for no profit entities.
- PGCP must be used by all the public sector companies with economic juridical activities.
- Their objectives are:
  - Public accounting modernization
  - Adjustment of Public sector data
  - Data integration in the national Public sector accounting.
  - The new structure of PGCP follows the PGC structure of private firms, with the introduction of five subsections:
    - Public accounting principles
    - Account framework
    - Accounting definitions and relationships
    - Annual account
    - Evaluation rules

The second part includes account groups: on budget creation, on financial period results determining, on budget operations to get pre budget execution and control.

Pre budget management operations, who give information on income and expenses distribution and changes, have the following phase: authorization, appropriation, obligation recognition and payment authorization.
Sources

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UNITED KINGDOM
Budgeting, Accounting and Control Systems
A comparison of Mediterranean and Anglo Saxon arrangements

Noel Hepworth∗

Introduction:

There are a number of key differences between Mediterranean and Anglo Saxon arrangements for budgeting, accounting and control and these differences are summarised in this article. The differences between these systems are reflected not only in countries that border the Mediterranean or have a clear Anglo Saxon identity but they are a powerful influence on the approaches adopted in other countries, especially those in Africa, Asia and South America that were very heavily influenced by European colonial traditions.

These differences between the approaches are important from a practical operational point of view. They arise from the different cultural, legal and political backgrounds that have evolved. There is no suggestion that one approach is better than the other, merely that there are important differences. However, for those seeking to make changes, whether as consultants or aid agencies or internal reformers, almost invariably it will be a mistake to pick on one or two particular features of a system and seek to graft reform onto that without looking at the total context in which that reform is to occur.

Inevitably a summary tends to ‘polarise’ the differences and in practice there are many ‘shades of grey’. There are also processes of reform affecting many countries and these processes make for greater difficulty in categorising into which group a particular country might fall.

1) Some important underlying factors

These different cultural, legal and political backgrounds need to be taken into account in any review of the operational effectiveness of the systems that are employed. Thus for example, any move to introduce accrual accounting should recognise that the change to an accruals basis is not an end in itself. That reform is but one element of a process to improve the quality of the financial management of

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service delivery and as part of that the efficiency and effectiveness of the public sector, including the transparency with which the public sector operates.

One important factor determining the structure of the budgeting, accounting and control systems and which is affected by the cultural, legal and political background, is the extent of the political centralisation of power, whether that centralisation is at national, regional or local level. The greater the centralisation of power, the more likelihood that tight central authority will exist over the processes of budgeting, accounting and control.

Associated with this is the degree of trust that exists between the central ministries (usually the Ministry of Finance) and the line ministries (and their equivalents at regional and local level). The less the degree of trust, the more likely that the central ministry will exercise control and dominate the budgeting and accounting processes. And this degree of control and domination will often extend to very detailed activity. Correspondingly, the greater degree of trust, the more relaxed will be the relationship between the central ministry and line ministries. However, acceptance of ‘trust’ as the dominating factor also requires that opportunities do exist should trust break down to remedy the failure of trust. What this means is an ability and willingness to change the officials responsible for the breach of trust, whether this arises from incompetence, inefficiency or actual legal breach. This in turn means that a flexibility in public service employment conditions exists which enables corrective action to be taken and which might affect the future employment opportunities for the officials concerned.

This issue of trust may be affected by the nature of the politics in a particular country. Does the Parliamentary process encourage debate about detail or does that process encourage debate about policy. No Parliamentary process distinguishes absolutely between the one and the other, but there is an issue of emphasis in the Parliamentary process. The greater the focus on detail, the more the likelihood that the centre will wish to become involved in detailed control.

Indeed, the term ‘control’ is likely to dominate debate with highly centralised systems, rather than audit and accounting, which are the terms more likely to occur in debate within decentralised systems. ‘Control’ also focuses on the compliance, or legality issue and therefore the dominant background of key officials (whether engaged in administration or audit) is likely to be legal rather than financial or accounting.

Related to this, is the legal tradition. Anglo Saxon countries tend to rely on common law and the approaches engendered by this tradition of non legal but formal instructions and requirements, rather than the inclusion of detailed instruction and requirements within a formal legal process (albeit a legal code defined as administrative rather than general law). Thus the detailed budget is
unlikely to form part of the budget law in Anglo Saxon countries and therefore a breach of the budget does not necessarily create an illegal act punishable through some form of legal sanction. Again, the instructions of the central ministry about budget formulation and accounting requirements in the Anglo Saxon tradition will not need to be incorporated into the law and reliance on observance can be placed on central ministry specification without the formality of law. However, in Mediterranean systems, the central ministry will often be unable to rely on the observance of its instruction and requirements without their formal incorporation into the law. This has a number of effects, including that the law needs to be very detailed, sanctions need to be more formal and that there is much less flexibility in the process. That detail in turn encourages a legalistic approach and hence enhances the role of the lawyer in the administrative process. It will also mean that over time legal prescription will probably tend to become more detailed as legal rules are avoided to create administrative flexibility, unlike in on the ‘spirit’ of the defined process, rather than its precise prescription.

Associated with ‘control’ and the requirement for detailed legal observance is the overall approach to public service delivery. What is the role of the State? Is it a central dominating force in society, concerned to prepare, promulgate and enforce laws supported by a distinct social class of bureaucrats, or is its role primarily that of a facilitator concerned primarily with the efficient and effective delivery of public services and with (up to a point) equality or fairness between citizens. Indeed, is citizens always the correct term, when increasingly in the Anglo Saxon tradition, the term customer or client has come to the fore? This difference consequently affects attitudes to the provision of information, or transparency, in the decision making processes and in the reporting of financial and performance information to citizens, customers or clients. This in turn raised questions about the role of the bureaucrat. Is the bureaucrat an administrator or a manager? With Anglo Saxon administrative systems, increasingly the bureaucrat is becoming a manager with an apparent willingness to absorb the precepts of the ‘new public management’. Reform is an important ingredient too in many Mediterranean countries, but the absorption of reforms, such as the new public management, may have different characteristics in these countries compared with the way such reforms impact in Anglo Saxon countries.

A current characteristic of both many Mediterranean and Anglo Saxon systems is a movement to reform accounting systems, switching from cash accounting to accrual accounting. Where this reform is being contemplated of critical importance is the recognition that the change is not an end in itself. What is important is that the management approach is changed to reflect the new information becoming available to management. This should of itself demand more flexibility of management as it responds to this information. The question therefore that needs to be addressed is will the cultural, legal and political background make it possible for the required degree of flexibility to exist? If not the change is likely to remain a
technical rather than a managerial one. However, whether a decision is made to retain cash accounting or to switch to an accruals basis, before a ‘value for money’ approach by management or audit can be properly developed, a good well targeted accounting system is required. This means that the accounting system has to provide information beyond that required for ‘control’ purposes.

None of this is to argue that one system is preferable to another, although there is an increasing dominance of the Anglo Saxon approach to internal control and internal audit as countries joining the European Union are encouraged to adopt this element of the Anglo Saxon approach. What would be a mistake would be to select particular features of one approach or the other without considering the wider implications that the context demands. Thus, even where accession countries to the European Union are encouraged to adopt the Anglo Saxon approach to internal control and internal audit, there has to be a recognition that management attitudes needs to change, that organisational structures need to be reformed and that extensive training is required.

2) Summary of the main differences

Set out in the table below is a summary of the main differences between the two approaches. Some of these differences flow from the way the systems work rather than are actual characteristics of the systems themselves.

<table>
<thead>
<tr>
<th>Element of the arrangements</th>
<th>Mediterranean</th>
<th>Anglo Saxon</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Parliamentary control – budget setting</td>
<td>Control tends to be over detail</td>
<td>Control tends to be over policy</td>
<td>Detail used to be a characteristic of Anglo Saxon systems but increasingly with the adoption of the new public management detail has become less and this is equally true as Mediterranean countries also absorb similar reforms.</td>
</tr>
<tr>
<td>Budget formulation</td>
<td>1. Generally bottom up, 2. Input based, 3. Annual</td>
<td>1. Generally, top down, 2. Output or outcome based, 3. Triennial/strategic, 4. Broad areas based</td>
<td>Increasingly there is a trend for budgeting generally to move to a longer term basis, but what is unclear is how</td>
</tr>
</tbody>
</table>
4. Detailed with chapters and line items on objectives firm future years budgets actually are.

<table>
<thead>
<tr>
<th>Budget ownership</th>
<th>Minister of Finance and hence Ministry of Finance</th>
<th>Minister of Finance and Line Ministers collectively and hence Ministry of Finance and Line Ministries</th>
<th>With the Anglo Saxon system, generally Ministers would be expected to resign if they were of the view that the budget agreed with the Ministry of Finance was unacceptable to them for they would have the direct responsibility for the delivery of services according to the specifications laid down in the budget agreement.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget status</td>
<td>Part of the law and therefore to spend other than in accordance with the budget is to break the law</td>
<td>Budget forms part of the financial law, but few specific requirements and these requirements are generally limited to financial appropriations against broad objectives</td>
<td>Variations to the budget with both systems need to be agreed with the Ministry of Finance and where appropriate with Parliament. However, with the Anglo Saxon system there is usually much greater freedom to make changes within rules specified by the Ministry of Finance. Ministry of Finance agreement is paramount in any debate about budget changes and a line Minister would have great difficulty in</td>
</tr>
</tbody>
</table>

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circumventing the wishes of the Minister of Finance and where this occurred it could only be done with the full authority of the Prime Minister and this could lead to a serious weakening of the position of the Minister of Finance, possible leading to resignation.

<table>
<thead>
<tr>
<th>Budget and risk taking</th>
<th>Detailed legalistic approach encourages cautious administration with limited risk taking</th>
<th>Broader more strategic approach facilitates risk taking and because the budget is easier to amend (sometimes not even requiring Ministry of Finance approval where amendments can be contained within approved budget heads) line ministers and their officials have a greater scope to experiment with different ideas.</th>
</tr>
</thead>
</table>
| Transparency           | The large amount of detail with the focus on administrative requirements rather than service objectives reduces transparency both for parliamentarians and the wider public | Can be confusing to parliamentarians and third parties, but less so than with very detailed line documents. Also the focus on outputs and outcomes facilitates debate and hence aids transparency  
Parliamentarians are generally not trained to assess financial documents and often transparency, so far as third parties are concerned, is about information being available to special interest groups and NGOs. Where detailed line by line |
parliamentary debate is concerned with parliamentarians attempting to substitute their judgement for that of the administration, not only does this facilitate special pleading and deal making but it also tends to obscure the service and economic objectives lying behind the budget.

| Accounting arrangements | 1. Follow the budget with the primary role being a control mechanism. 2. Essentially accounting is limited to bookkeeping. 3. The accounting plan design is centralised and set by the Ministry of Finance | 1. Allows control against the budget 2. Essentially used as a financial management tool 3. The accounting plan is generally decentralised and reflects management needs. Therefore is expected to have facilities for costing and other information needed by management | The greater emphasis with the Anglo Saxon system is on financial management rather than upon control. Line managers are expected to deliver efficient and effective services adapting to changing needs as circumstances change. This requires a different style of financial management to that required by ‘control’. |
| Position of the accountant in the organisation | 1. Title: – Bookkeeper (usually) 2. Position: - relatively junior | 1. Title: - Finance Director or Financial Manager 2. Position: - senior position at the top of the organisation. | In the Anglo Saxon system, the title ‘accountant’ used to be common, but increasingly, and especially with the switch to accrual accounting the |
The position of the accountant has changed to a more central position and in some countries, the person responsible for the financial management of the organisation has to be a professionally qualified accountant because of the scope of responsibilities that the position now carries.

<table>
<thead>
<tr>
<th>Control arrangements (1)</th>
<th>1. Ex ante by inspectors</th>
<th>1. Ex ante control, responsibility of management</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. Control usually external to the line ministry or other organisation management</td>
<td>2. Therefore heavy management focus on the efficacy of the internal control system</td>
<td>3. Ex ante Management control 100%</td>
</tr>
<tr>
<td>3. Control 100%</td>
<td>4. No other ex ante control.</td>
<td>5. Ex post: no detailed ex post control, but external auditor tests samples of transactions as part of a systems testing plan with a heavy focus on the effectiveness of the internal control system.</td>
</tr>
<tr>
<td>4. Further ex ante control by Court of Audit</td>
<td>6. The underlying principles adopted for the ex post control are ‘risk’ and ‘materiality’.</td>
<td>The control arrangements essentially reflect the degree of trust that exists between the line ministries and other organisations and the Ministry of Finance and the Court of Audit. Unless trust exists (and this is a function of culture and experience) there would be considerable dangers in switching from the Mediterranean system to an Anglo Saxon type system.</td>
</tr>
<tr>
<td>6. Ex post control can be 100%</td>
<td>1. Internal control an essential feature of organisational design</td>
<td>With the Anglo Saxon system, internal audit is generally provided by the line ministry or other organisation management to a quality specification laid down by the Ministry of Finance. The Ministry of Finance may in some circumstances also provide the internal audit service, but usually only for those line ministries or other organisations which are not large enough to provide their own internal audit, or where there is a particular skill shortage in specialised types of audit such as computer and contract audit.</td>
</tr>
<tr>
<td>Control arrangement (2)</td>
<td>2. Extensive internal audit usually (but not always) responsible to the organisation management</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3. The internal control structure and the internal audit agenda driven by ‘risk’ and ‘materiality’ as perceived by the management. Whilst legal compliance is important internal control and internal audit also heavily focus on value for money</td>
<td></td>
</tr>
<tr>
<td>Control arrangements summary</td>
<td>1. Strong central control over detail</td>
<td>1. Weak central control (if any) over detail</td>
</tr>
<tr>
<td></td>
<td>2. Main emphasis is upon legality of transactions</td>
<td>2. Main emphasis is upon the quality and effectives of the systems and value for money</td>
</tr>
</tbody>
</table>

- Internal control an essential feature of organisational design
- Extensive internal audit usually (but not always) responsible to the organisation management
- The internal control structure and the internal audit agenda driven by ‘risk’ and ‘materiality’ as perceived by the management. Whilst legal compliance is important internal control and internal audit also heavily focus on value for money
- With the Anglo Saxon system, internal audit is generally provided by the line ministry or other organisation management to a quality specification laid down by the Ministry of Finance. The Ministry of Finance may in some circumstances also provide the internal audit service, but usually only for those line ministries or other organisations which are not large enough to provide their own internal audit, or where there is a particular skill shortage in specialised types of audit such as computer and contract audit.
| External audit | 1. Based on the law (Judicial court organisation for the external audit arrangements) | 1. Based on financial review (National Audit Office type organisation and therefore less collegiate than judicial type organisation) |
|               | 2. Often 100% checks | 2. Test checks to assess effectiveness of systems and will often rely on internal audit and the internal control systems. Materiality and risk are major concerns. |
|               | 3. Audit certificate: concerned with compliance with the law | 3. Audit certificate: the financial statements present fairly or present a ‘true and fair view’ of the financial affairs of the line ministry or organisation |

| External audit – reporting to Parliament | 1. Ministry of Finance submits accounts of the Government to Parliament and the Court of Audit reports on the accounts as a whole | 1. Individual organisations submit accounts to Parliament. The audit certificate is attached to the accounts |
|                                         | 2. A | 2. Parliamentary committee mainly concerned with value for money but is also concerned with legality |

The main skill differences between the staffs of the two systems are that with Mediterranean type systems, the most important qualification is in law. With the Anglo Saxon system, the most important qualification is a professional accountancy qualification, although this is a relatively recent trend and prior to that staff were trained internally, but with a heavy focus on finance.

Because there is no requirement for 100% checks, there is a greater likelihood that the auditor will complete the audit within a relatively short period after the end of the financial year.

Because the published accounts of government are complex and usually bear little or no relationship to the presentational form of private sector accounts and unless accrual accounting has been adopted.
3) Acknowledgements

This article was prepared following a seminar organised in December 2004 by Formez, an Italian Institute conducting research, training, consulting and technical assistance activities throughout Italy for central, regional and local administrations. Participants at the seminar included representatives from Italy, Germany, Spain, France, the United Kingdom, Turkey, Serbia, Morocco, Tunisia and the Lebanon. The article reflects comments made at this seminar and in particular the contribution made by Professor Edoardo Ongaro, Bocconi University, Milan. However, what is set out in this article is solely the work of the author and where there have been errors of interpretation these are wholly the responsibility of the author.
The United Kingdom National Case

di Giovanna Astarita e Valentina Cima

Introduction

The Government of the United Kingdom’s economic objective is forming a strong economy and a fair society, where there is a “chance” and security for all. This implies a role for the Government both to tackle market inefficiencies where it can do so effectively, and to intervene where market-based provision of vital services to the public would be inefficient and where markets would lead to unacceptable disparities in the quantity and quality of services provide.

The long-term decisions the Government has taken, giving independence to the Bank of England, new fiscal rules and a reduction in debt, have created a strong platform of economic stability.

With the world economy now strengthening, the challenge is to lock in the U.K.’s stability and strength, and equipe the U.K. to continue to succeed over the long term in more competitive global economy.

1) The systems of control of the United Kingdom

The United Kingdom has got a well-regarded central agency which the Treasury is responsible of the management of the government finances. Each financial year the Treasury updates the accounting guidelines according to the standards set by the UK’s Accounting Standard Board. There are well understood systems of control over departments and latterly these systems of control have tended to focus more on the key areas.

Leaving it to the departments to control the detail of the management of their activities, it is only for these areas that the parliamentary approval is required. However the Parliament in its scrutiny of public expenditure may enquire into how a department manages its internal affairs as part of its regular of reviews to secure value-for-money.

2) The UK Public Sector before the RAB:

2.1 The wide functions of Parliament

The present processes of reform had their origin from the results of World War II, which caused considerable damage to both the infrastructure and to the economy. Besides social attitude had changed and there was a considerable
demand for improvements to the public services and for the better health and social
security arrangements.

The private sector would not have been able to meet these demands. The result
was a very substantial expansion both of the role range of activities and scale of the
public sector.

At the same time the inflation emerged as a problem, levels of taxation and
public sector borrowing rose to unsustainable levels: while GDP per head
continued to rise, the relative overall economic position of the United Kingdom,
from a rich nation, began to decline.

The pressure appeared for better planning of public expenditure. Various
experiments took place usually not well co-ordinated within the different parts of
the public sector. Local Government for example experimented with Planning
Programming System (PPBS), this collapsed because of the cost and complexity
of the system and, in the end, the arbitrary decisions that were required also for
lacking of technical research and for its complexity. These failures were
overwhelmed by other priorities often resulting from external events over which
local government had no control such as the overall state of the United Kingdom
economy.

The oil crisis produced a severe shock to the United Kingdom economy and
the emphasis of expenditure control switched to cash. Firm cash limits were
introduced and there was an emphasis on efficiency gains with an added pressure
to eliminate unnecessary activities from Government.

Subsequent reforms, some of which were brought in through a change of
Government, introduced greater controls over spending. Greater emphasis was
placed on the management role of ministers and senior civil servants in controlling
costs. This management role was no longer to be subordinated to the traditional
policy-making and advisory role.

A much tighter cost control regime was introduced with a new drive for
increased efficiency and effectiveness. As part of this a need for greater delegation
of responsibility was accepted but this was to be accompanied by new
arrangements to improve accountability for performance.

3) The U.K. Public Sector

The U.K. Public Sector is diverse and includes:

1) Local Government, covering both urban and rural areas, not financed by
central Government;

2) Government, controlling trading entities though many of them have been
privatised;

3) Hospitals and other related organisations linked to the health care are
controlled and financed by the central Government;

4) Central Government Department under control of a Minister of the
Government of the day, including armed forces;

5) Agencies controlled by Government.
The Public Sector accounts about 40% of GDP. The United Kingdom operates a unified system of management. In the central Government an official is designed as accounting officer, responsible for both operational and service management and for all aspects of finance and accounting.

One of the main things for a good Public Sector management above all for developing and use of accrual accounting and budgetary information is the manager’s comprehensive responsibility.

Departments have considerable operational responsibilities without the need to defer to central decision: this is one of the aspects of resource accounting.

The United Kingdom is in a particular stage of “ongoing process of reform”. The main drivers of reform are economic one, with the demands for Public Sector’s services and investments very difficult to finance because of its increasing.

In this way, political pressure to reduce the level of taxation, together with the financing problem and a change in culture, from a producer lead society to a consumer driven society, derives from the need of improving the total public sector’s efficiency and effectiveness and building substantial changes in the structures, functions and collocations of public sector activities.

So, you can say that the management of public sector services and information’s key feature is the introduction of **accrual accounting and budgeting**.

The introduction of accrual accounting didn’t start with Central Government, in fact it is the last area of public sector activity to see the introduction of accrual accounting.

The first sector of application of the accrual accounting in the United Kingdom is the private sector. In fact, the annual financial accounts of a company identify the financial impact of the company on its individual share holders. In contrast, it is a country’s taxation system, not the Government’s accounts, which identify the financial consequences of Government policies for individual citizens.

Accrual accounting was specifically developed to measure the profit earned by an entity that should be attributed to a particular financial year.

Accrual accounting also enables private sector businesses to match the cost of the provision of goods and services with the revenue gained from their sale.

For these reasons, most public sector organisations in the United Kingdom now produce financial statements which are comparable to those produced by private sector entities. In some cases at least, one of the result of this change has been that the stewardship function of financial accounting in the public sector has been lost.

4) Local Government

Local Government had already, from many years, operated a system of partial accrual accounting and budgeting, in fact the former nationalised industries used full accrual accounting and later the health service introduced it.
During the mid-1990s, health provider units were established as separate entities and prepared GAAP-based accounts.

Health units are classified as non-financial public corporations for national accounts purposes.

In April 2001, the United Kingdom moved to a new resource-based financial management system (RAB).

5) The United Kingdom Government’s Resource Accounting and Budgeting: “the RAB”

RAB is an accrual based approach to Government accounting and budgeting, which also reflects Parliamentary control and a move to focus on outputs, rather than inputs. It is wider than simply the adoption of accrual accounting techniques.

Other key elements: linking inputs and department aims and outputs. (Not every country using accrual accounting includes these other elements.)

The introduction of resource accounting and budgeting is considered as part of a process of reform and it hasn’t been inserted into a stable unchanging management process. That management process has been undergoing reform over a long period of time.

6) Advantages of accrual accounting and RAB in the U.K.

It provides a better picture of the true costs of a department’s activities, including use of assets, costs of capital and non-cash costs, and relating these more directly to any revenues generated by the activity.

Improves local accountability capacity for asset and liabilities of local government units.

The United Kingdom debate on who should set the Public Sector Accounting Standards. The most think that it would be inappropriate for those responsible for preparing financial statements to have the sole responsibility for deciding on the standards such statements should follow.

“Clearly the Treasury should have a major role in the development of accounting requirements specific to Central Government. However, Parliament and other users of the accounts, auditors and professional bodies should also play a role.

In Canada, the USA and Australia, the arrangements provide for an independent body to oversee and approve central government accounting standards”.

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1 www.ifac.org/PublicSector.
Conclusions

The cash basis accounting is a simple, robust and well-tried and tested approach to the accounting for public sector organisations. In contrast, the accruals basis fails, even in its own terms to account adequately for Government debt and many other unique aspects of public sector accounting have yet to be adequately resolved. For many countries, especially transitional and underdeveloped countries, the adoption of the accrual basis of accounting for their public sector organisations may not be considered to be a high priority.

In contrast, in the U.K. the reform of public sector financial accounting can bring many benefits in terms of the quantity and the quality of services that are provided to the citizens.

However, these reforms should be considered carefully. Aspects, such as the basis of accounting which are to be adopted, should be decided in the context of the overall priorities of the reform process and not just of the basis of the perceived superiority of one basis of accounting over another. Accrual accounting may facilitate New Public Management reforms but it is not an end in itself.

In conclusion, the introduction of accrual accounting and budgeting in the U.K. should be regarded as part of a long process of reform. That process will not cease now that the decision to move from cash-based systems has occurred. Rather the likelihood is that it will build upon the RAB system. Whilst this particular reform has been introduced relatively smoothly, important concerns have been expressed by Parliament reacts to the information it is provided with and whether or not it regards the implementation of the reform as robust.

Parliament will also want to see tangible benefits emerging through improved management and better public service performance.

All the signs are that in the United Kingdom the reform will be successful. There will be difficulties, but the structures and the will exists to overcome them. The culture both in the civil service and in the accountancy profession will promote success. Yet, any observer must recognise that, at this point in time, the experiment is by no means completed.
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