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SURVEY OF BUDGETING DEVELOPMENTS -- COUNTRY RESPONSES

**19th Annual Meeting of Senior Budget Officials
Paris, 25-26 May 1998**

Due to time constraints, the country responses are presented only in the language in which they were presented to the Secretariat and have received only limited editing.

For further information, please contact Jon Blondal:
Tel: (33-1) 45 24 76 59 Fax: (33-1) 45 24 87 96 E-mail: jon.blondal@oecd.org

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AUSTRALIA

1 Fiscal Performance

1.1 Please outline the government's fiscal performance in the last fiscal year and the outlook for the current fiscal year, in nominal terms and as a percentage of GDP?

The Government's fiscal performance is in line with its announced strategy of achieving a surplus in 1998-99. Accordingly, Commonwealth general government net debt is expected to decline from around 19 per cent of GDP in 1995-96 to just under 10 ½ per cent by 2000-01.

1996-97 Outcome

	<i>\$b</i>	<i>% of GDP</i>
Underlying Balance	-\$4.9	-1.0
Headline Balance	\$2.5	0.5

Source: Final Budget Outcome 1996-97

In underlying balance terms the 1996-97 outcome represented a 1.1 per cent of GDP improvement on the 1995-96 outcome.

In headline balance terms the outcome represented a 1.5 per cent of GDP improvement over the 1995-96 outcome.

1997-98 Outlook

	<i>\$b</i>	<i>% of GDP</i>
Underlying Balance	-\$2.7	-0.5
Headline Balance	\$11.8	2.2

Source: Mid Year Economic and Fiscal Outlook (MYEFO)

1.2 Please outline the government's medium term fiscal policy objectives, in nominal terms and as a percentage of GDP?

The Government's medium term fiscal strategy is to maintain an underlying budget balance on average over the course of the economic cycle. In this regard the improvement in the underlying balance can be expected to:

- provide a substantial boost to public sector saving by incurring a zero net borrowing requirement over the course of the cycle;

- reduce the structural national saving-investment imbalance, and
- ease pressure on the current account deficit.

Medium Term Underlying Balance Forecasts

	\$b	% of GDP
1998-99	2.5	0.4
1999-00	5.0	0.8
2000-01	10.4	1.6

Source: MYEFO

2. Role of the legislature

2.1 *Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?*

a) Yes.

b) Section 53 of the Constitution provides that bills imposing taxation or appropriating funds may only be initiated in the lower house (the House of Representatives), and not in the upper house (the Senate). There are no restrictions on the ability of the House of Representatives to modify the government's budget. Modification of the budget rarely occurs, however, as the government, by definition, holds a majority in the House of Representatives. The Senate is restricted in that it may not amend bills imposing taxation or appropriating money for the ordinary annual services of government. If it wishes to make changes to such bills, it must request the House of Representatives to make the required amendments. This limitation on power is procedural, rather than substantive, however, as the Senate can reject any bill and can decline to pass any bill until it is amended in the way the Senate requires.

2.2 *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by the government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years. Does the legislature take a more active role in the budget process now than it did 10 years ago? If so, why?*

a) Yes.

b) Amendments to appropriation bills by the government of the day in the House of Representatives are very rare, as the government holds a majority in that house.

c) Amendments to appropriation bills:

		Government	Non-government	Total	Total legislature
Financial Year 1994/95	House of Reps	Proposed	-	1	17 proposed 1 passed
		Passed	-	1	
	Senate	Proposed	-	16	
		Passed	-	-	

Financial Year 1995/96	House of Reps	Proposed	2	2	4	13 proposed 4 passed
		Passed	2	1		
	Senate	Proposed	-	9	9	
		Passed	-	1	1	

Financial Year 1996/97	House of Reps	Proposed	-	1	1	97 proposed 3 passed
		Passed	-	-		
	Senate	Proposed	-	96	96	
		Passed	-	3	3	

d) There have been no substantive changes in recent years but there have been a number of refinements in the manner in which Senate committees consider estimates of expenditure. Since 1994 these committees have had the power to send for specified persons and documents and to meet and hear evidence beyond Parliament House. Since 1993 committees considering estimates have been authorised to arrange supplementary hearings to inquire more fully into matters raised during the first round of hearings. The supplementary hearings replace committee of the whole consideration (by the whole chamber) of the appropriation bills except where a Senator has circulated an amendment or request for an amendment.

2.3 *Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?*

The three annual appropriation bills introduced into the Parliament only cover about 30 per cent of the annual Budget with the balance of outlays authorised by standing (or special) appropriation legislation for which the annual approval of the Parliament is not required.

The existence of multiple appropriation bills stems from the constitutional provision that provides that the upper house of the Australian Parliament (the Senate) may not amend an appropriation bill for the ordinary annual services of government. Following an agreement between the two houses of the Parliament it was agreed that the following items would not be considered 'ordinary annual services' and would be included in a separate appropriation bill:

- Construction of public works and buildings;
- Acquiring sites and buildings;

- Items of plant and equipment which are clearly capital in nature;
- Grants to the States and Territories under section 96 of the Constitution
- New policies not authorised by special legislation

The exception to these guidelines is that all Defence expenditure is included in the Appropriation for the ordinary annual services of government, Appropriation Bill No. 1).

Subsequently, the Parliament agreed to a separate appropriation bill to cover the Parliamentary Departments. This bill is amendable by the Senate.

The Appropriation (Parliamentary Departments) Bill covers all annual appropriations for the five Parliamentary Departments. Both Appropriation Bills 1 and 2 provide coverage for the rest of the Commonwealth budget sector.

2.4 What are the key steps taken by the legislature in considering the budget? What are the respective roles of a budget or appropriation committee and the sectoral committees, if applicable? Do heads of government ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?

- Appropriation bills for expenditure by government in any one financial year are introduced to the lower house (House of Representatives) where they are debated and passed, usually without amendment, with the support of the government majority in the chamber. To expedite detailed consideration of the bills in the upper house (the Senate), the particulars of the bills are referred to Senate committees for examination and report while the bills are still being considered in the lower house. The bills are then introduced to the Senate where they may be debated but will not usually be passed until the aforementioned committee process has been completed.
- Following the examination by committees, if a request for an amendment is circulated by any Senator, the bills will be considered by the whole chamber (in Committee of the Whole) so that the amendment may be dealt with. Any amendment that is successful in the upper house must then be sent to the lower house for agreement before the next step can take place, which is obtaining the assent of the Governor-General.
- Bills concerned with revenue are dealt with similarly, except that the imposition of taxation and other revenue measures (such as the sale of government assets) is not done on an annual basis. These bills are considered by the standing legislation committees as they arise.
- Appropriation bills containing estimates of proposed annual expenditure by government are referred to Senate committees for examination and report. There is no specialist budget or appropriation committee as such. Rather, estimates of expenditure are considered by standing committees on a relevant subject basis which at other times also consider legislation, and annual reports of government departments. In their estimates examination mode, Senate committees consider the appropriation bills in detail, away from the main chamber. Committees play a key role in parliamentary scrutiny of the performance of the executive branch of government.
- It is usual for Senate ministers to attend hearings, accompanied by senior officers from the relevant departments and agencies, and to answer questions.
- Yes.

2.5 *What resources (e.g. staff) are available to the legislature for reviewing the budget?*

Each of the eight Senate committees that examine government expenditure proposals have a secretariat to support the process of committee hearings. The committee secretary, supported by an estimates officer, is the usual allocation. Parliamentary reporting staff provide transcripts of hearings. Committee members have publicly-funded personal staff who can provide research and support services.

The review by committees of bills concerning **revenue** measures is similarly supported.

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditure items? If so, please describe.*

The Government, through Cabinet and the Expenditure Review Committee (ERC), determines its broad budgetary strategy within its overall economic and social policy goals, and in light of these goals, the allocation of resources, and consequently expenditure, on individual programmes.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes? How is this information used by the legislature?*

- a) Budget expenditure proposals are supported by "Portfolio Budget Statements", providing detail on expenditure proposals and programme outputs. Senate committees also consider annual reports of government departments, which provide information on performance. Reports by the Auditor General are regularly used as an aid to questioning by committees.
- b) Portfolio Budget Statements are used as the basis for committee consideration of government expenditure proposals.

2.8 *What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programs)?*

The Government each year brings down a Budget. The Budget documentation provides the estimated outlays and revenues of the Government for the Budget year and each of the three forward estimates years. At that time the Government introduces into the Parliament a group of three annual appropriation Bills (Appropriation Bills Nos. 1 and 2 and Appropriation (Parliamentary Departments) Bill).

However, these appropriation Bills cover only some 30 per cent of total government outlays – the remaining expenditure is authorised by standing (or special legislation) which may have open ended or multi-year expenditure authorisation for which the annual approval of the Parliament is not required.

2.9 *Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have there been in each of the past three years?*

Under the Charter of Budget Honesty Act, the Government is mandated to publish approximately midway through each budget year an update of the economic and fiscal outlook. This report provides, amongst other information an update at the aggregate level of the Budget and forward estimates. However, it is not a vehicle for seeking Parliamentary approval to a revision to those estimates.

Parliament's approval to the supplementation of the authority provided in the three annual appropriation Bills is sought during the additional estimates process where supplementation is sought to the provisions

contained in the three annual appropriation bills. At the same time, the Parliament is informed of any underspends anticipated against the provisions in the annual appropriation Bills approved by the Parliament at Budget time. This supplementation exercise is very small when compared to the overall budget (less than 1 per cent of total estimated outlays over recent years). In addition, this supplementation exercise does not take account of adjustments in anticipated expenditure from standing appropriations.

The basic steps in the process are:

- Agencies are asked to revise their estimates of expenditure from the annual appropriations to reflect any changes since the budget was brought down (new policies approved by the executive, adjustments to assumptions underpinning the budget estimates, etc.)
- The revisions to the estimates are reviewed by officials of the department of Finance and Administration before an omnibus submission is placed before the Cabinet
- On receipt of Cabinet endorsement, legislation is introduced by the Parliament where it goes through a scrutiny process before approval.

Supplementary appropriation Bills are not mandated. They are only introduced where changes in circumstances warrant them.

However, experience has shown that supplementation is sought for each of the original budget appropriation bills once each budget year (generally around the mid point between one budget and the next. However, it is open to the Government to seek supplementation for this initial budget legislation as often as it considers necessary.

3. Fiscal Relations with lower levels of government

3.1 Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?

The annual Premiers' Conference and Loan Council meeting (usually held on the third Friday in March) deals with issues surrounding national fiscal policy. As part of this process the National Fiscal Outlook (NFO) is released prior to the Conference.

The NFO presents medium-term projections of general government sector finances of the Commonwealth, States and Territories. The projections assist the Premiers' Conference and Loan Council meetings in assessing the appropriateness of the current stance of national fiscal policy.

Publication of the NFO is designed to assist public understanding of trends in public sector finances. It forms part of an agreed framework for the presentation of uniform financial information by Commonwealth, State and Territory governments. Data are presented for the general government sector in order to facilitate comparisons between levels of government. The NFO focuses on the underlying general government deficit/surplus which abstracts from policy lending and equity transactions (such as asset sales), providing a better indication of a jurisdiction's fiscal position and impact on national saving.

3.2 Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what the key steps in this process?

There is no role for the Commonwealth Government in reviewing or approving the budgets of lower levels of government.

3.3 Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?

The Commonwealth Government does not directly restrict State and Territory borrowing activity. However, the Commonwealth is a member of the Australian Loan Council which monitors the borrowings of the Commonwealth, States and Territories and may in certain circumstances seek a reduction in the call on financial markets implicit in a jurisdiction's proposed headline deficit.

The Loan Council is a Commonwealth-State Ministerial Council, comprising the Commonwealth Treasurer as Chairman and the Treasurer of each State and Territory, which operates under voluntarily agreed arrangements.

The Commonwealth and each State and Territory nominates an annual Loan Council Allocation (LCA) based on its expected public sector deficit/surplus and certain memorandum items. The acceptance of each jurisdiction's nominated LCA is subject to Loan Council consideration of the implications for macroeconomic policy of the aggregate of all jurisdictions' LCAs, and Loan Council judgements about the acceptability and sustainability of the fiscal strategy implicit in the jurisdiction's nominated LCA.

Borrowings by local government are included in State LCAs, consistent with the States' constitutional responsibility for local government. However, the allocation of borrowing authority within a jurisdiction, including to local government, is a matter for the jurisdiction concerned.

If the aggregate of the nominated LCAs is judged to be inconsistent with macroeconomic policy objectives there may need to be some adjustment. The nature of any adjustment and its allocation across governments would be negotiated by Loan Council members. Important considerations in these negotiations would be the comparative fiscal circumstances, infrastructure requirements and capital needs of particular governments.

If Loan Council has concerns about the fiscal outlook for a government it may require a more comprehensive justification for its proposed LCA or, in some cases, may request the government to modify its fiscal strategy.

Each jurisdiction then undertakes to formulate its annual budget in the light of its Loan Council agreed LCA. A tolerance limit (of 2 per cent of total public sector revenues) applies around each jurisdiction's Loan Council agreed LCA and again around the LCA implied by its annual budget. If the budget time LCA varies from the LCA nomination by more than the agreed tolerance limit, or if the LCA outcome varies from the budget time LCA by more than this limit, there is a requirement that the reasons for the change be advised to Loan Council and made public.

In the five years of operation of the present Loan Council arrangements the Loan Council has accepted the LCA nominations of all jurisdictions without change. The arrangements provide a mechanism for peer review of the finances of each jurisdiction, emphasising transparency and financial market scrutiny rather than adherence to strict borrowing limits. They are supported by a comprehensive framework for the uniform reporting of public sector finances.

3.4 If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.

The Commonwealth Government is not obliged to provide assistance to a State that is in financial difficulty. The main priority of the Commonwealth Government is to provide the State sector as a whole with funding certainty, such as through the existing guarantee that financial assistance grants will increase in real per capita terms.

Special assistance was provided to South Australia over the period 1992-93 to 1995-96 under the South Australian Assistance Package (SAAP). In this case, the Commonwealth Government considered that it was in the national interest to assist the recovery of that State from relatively severe financial difficulties associated with the collapse of the State Bank of South Australia. The SAAP provided South Australia with \$600 million (net present value terms), subject to a number of conditions being met. The most important conditions were agreement to the sale of the State Bank of South Australia and adherence to a debt management strategy designed to return the State's debt burden to sustainable levels.

The Australian Capital Territory (ACT) has received special revenue assistance from the Commonwealth in recent years, based on recommendations of the Commonwealth Grants Commission (CGC), to assist the Territory to further adjust to State-like funding. The ACT has not received any additional assistance from the Commonwealth despite short-term financial difficulties caused by the Commonwealth's fiscal consolidation in 1996-97 and 1997-98.

In the case of regions experiencing fiscal difficulties as a result of longer-term structural issues, the Commonwealth assists in providing funds and input to independent reviews, and through implementing recommendations of the CGC. For example, the Commonwealth funded an independent review of Tasmania's industry and employment opportunities in 1996-97. Also, State and Territory revenue and expenditure disabilities are taken into account by the CGC in its annual reviews of the per capita relativities that are used to distribute general revenue and hospital funding grants to the States and Territories.

The Commonwealth government does not provide special assistance to local governments. This would be a matter for consideration by each State government, as they determine the administrative arrangements for local government within their boundaries.

4. Managerial Flexibility

4.1 How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?

There are about 500 separate appropriation items within the three appropriation bills. While we do use aggregated appropriations to cover the costs of administering and agency (called running costs appropriations), many of our program appropriations are disaggregated according to the purpose for which the appropriation can be applied. As we move towards budgeting and managing on an accruals basis (due to commence from the start of the 1999-2000 fiscal year), it is anticipated that the appropriations will become output and outcomes based and significantly broadbanded.

4.2 Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?

Appropriations must, in accordance with the constitution, be expended in accordance with the purpose for which they are appropriated. Accordingly, unless an appropriation covers expenditure related to more than one programme (for example running costs are appropriated at an agency rather than a programme level) spending appropriated for one programme cannot be applied to another.

4.3 Can managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?

The Performance Improvement Cycle was developed to help managers play their part in achieving better government through meeting the Government's requirement that they:

- review all their agencies' responsibilities;
- assess their activities' cost and effectiveness to determine how to improve performance; and
- consider whether tools, such as competitive tendering and contracting, will provide improvement opportunities.

The cycle outlines an approach that will assist managers to strategically manage their business. The cycle encourages managers to actively question the relevance of their activities in meeting the Government's objectives and test that the current arrangements for their activities use resources in the most effective and efficient way. It also encourages managers to actively search for new ways to meet client needs; to introduce market discipline into the delivery of Commonwealth services; and involve other public sector agencies, other levels of government and the private and non-profit sectors in the performance of their activities.

4.4 If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?

Agencies are free to carry forward funds unspent at the end of the financial year to the following year in the next available appropriation (Budget or Additional Estimates). A resource agreement is not required for these carryovers, unless they exceed 10 per cent, and interest does not accrue.

Where an agency intends to carry funds forward across more than one year in order to fund anticipated future expenditure, it must negotiate these arrangements with the Department of Finance and Administration (DoFA) under a resource agreement. Interest is paid to agencies that have a resource agreement for multiple year carryovers.

4.5 Are there any arrangements in place where managers may borrow against future appropriations? If so, please describe applicable maximums and other conditions.

In addition to the Running Costs carry-overs, agencies have been able to achieve further flexibility in their use of resource via borrowing arrangements. Borrowings are arranged either:

- through the Annual Appropriations or Additional Estimates Bills, with a consequent reduction in future estimates; or
- through the Provision for Running Cost Borrowing (PRCB) where funds are required before the next Appropriation Bill.

The PRCB acts as a reserve on which agencies may draw from to borrow running costs from a future running costs appropriation. The PRCB is a separate appropriation of \$20m and is administered by DoFA. Agencies may enter into either single year or multi year borrowings. Single year borrowings are not subject to an interest charge and do not require a resource agreement. Multi year borrowings are subject to a resource agreement and incur interest that is calculated every 12 months and is deducted from the estimate of the following financial year.

4.6 Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? What flexibility do managers have in setting the wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.

There are no restrictions placed on the number of staff employed in government organisations although portfolios are expected to operate within their running costs allocation. Under the Workplace Relations Act managers have greater flexibility in setting the wages and other terms of employment for their staff. Staff are invited to agree to the terms and conditions of a Certified Agreement which covers a broadband of staff or an Australian Workplace Agreement (AWA) which is an individual agreement between the employee and the employer. The rules, conditions and salaries will vary between agency. Variations may also occur as a result of differences between AWA's.

5. Accrual Accounting and Budgeting

5.1 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual-basis. Do some types of government organisations (e.g. agencies, enterprises) use accrual-basis whereas others do not? If so, please describe. Are certain transactions (e.g. interest on government debt, civil service pension plans) treated on accrual-basis whereas other transactions are not? If so, please describe.

The Government will have in place a fully integrated accrual framework from the financial year 1999-2000. Currently, all Commonwealth agencies, authorities and companies report on an accrual basis and the Government prepares consolidated financial statements on an accrual basis for the whole of the Commonwealth public sector. The accrual framework will be completed when the Government prepares its budget on an accrual basis for 1999-2000.

5.2 Has the government's basis of accounting moved from cash-basis to accrual-basis in recent years? If so, please describe. Does the government have plans to move to accrual-basis in the near future? If so, please describe.

Accrual accounting has been introduced progressively: The Postmaster-General's Department moved to accruals in 1913; commercial operations of agencies (trust accounts) from 1957; Government Business Enterprises from 1975; Commonwealth authorities from 1983; agencies from 1995; consolidated financial statements of the Commonwealth public sector from 1997; the Commonwealth Budget (for General Government Sector) from 1999.

5.3 Are consolidated whole-of-government financial statements prepared on accrual-basis? Or are only departmental or agency-level financial statements prepared on an accrual-basis? If so, why?

All ex post financial statements (including whole of government) are prepared on an accrual basis.

5.4 *What is the frequency of financial reporting on accrual-basis? Is there more frequent reporting on cash-basis? Which of these reports is independently audited?*

Financial reporting of individual Commonwealth agencies, authorities and companies as well as whole of government is currently on an annual basis and independently audited. A monthly unaudited statement of cash transactions compared with cash budget estimates is also prepared for the budget sector. From the financial year 1999-2000 monthly accrual statements compared with accrual budget estimates will be prepared for the general government sector.

5.5 *How are "heritage assets", such as museums and national parks, treated for reporting purposes?*

All physical assets (including heritage assets) are being progressively valued on a deprival basis by 1 July 1999 i.e. on the basis of the loss that would be incurred by an entity if it were deprived of it. Under this model, where the asset would be replaced, it is valued at current replacement cost; where the asset is surplus, it is valued at current market selling price; where neither of the former apply and the asset will be held for the remainder of its useful life it is valued at the lower of market selling price and net present value of cash flows expected to be generated by the asset.

Heritage assets are often unique and do not have a replacement value or cannot be valued reliably. In these cases they would be disclosed in the notes to the financial statements but not have a value attributed to them.

5.6 *How are government accounting principles, standards and definitions determined? Does the government establish these unilaterally or does it rely on private sector accounting policy boards?*

The Government applies accounting standards issued by an independent body known as the Public Sector Accounting Standards Board.

5.7 *Is the budget presented to the legislature on accrual-basis or cash-basis, or both? Does the legislature approve the budget in accrual terms or cash terms, or both? If applicable, is there a reconciliation between the different basis of accounting used in the budget and the financial statements?*

The budget will be presented to the legislature on a cash basis for the last time in May 1998 (for the financial year 1998-99) and the accrual based whole of government financial statements for that year will include a reconciliation with the cash based budget outcome figures. Future budgets will be presented on an accrual basis. The budget documents will include a Statement of Cash Flows as well as an Operating Statement and Balance Sheet prepared on an accrual basis.

6. Capital Budgeting

6.1 *Are appropriations divided between separate capital and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?*

Under our current cash budgeting arrangements and the provisions of the 'Compact' between our two Houses of Parliament, with the exception of defence expenditure all major capital items (i.e. for items in excess of \$250,000 or a project of more than \$2m) are provided for in a specific appropriation item in Appropriation Bill No. 2. However, minor capital expenditure is included in Appropriation Bill No. 1 under 'running costs'.

6.2 *Has there been a change from having a capital budget to not having a capital budget, or vice versa, within the last 30 years? If so, why? Are there any plans to introduce or abandon a capital budget in the near future? If so, why?*

Capital budgets will be introduced for all entities in the general government sector from 1999-2000 when the first accrual budget is presented to the Parliament.

6.3 *What is the definition of capital used to determine which expenditures are included in the capital budget? Does "capital" include all types of physical capital purchased by the government (e.g. infrastructure, buildings, motor vehicles, military weapons systems)? Does it include transfers to lower levels of government to acquire capital? Does it include expenditures for non-physical capital (e.g. research and development, education, training)? Who determines the definition of capital and how?*

The Government does apply a system of classification (including for major and minor capital) which is consistent with the standards set by the IMF. However, as noted in an answer to a previous question (2.3), moneys are appropriated for particular purposes that may cover both capital and non-capital expenditure.

6.4 *Does the operating budget include any charges for the use of capital (e.g. depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

The budget for the general government sector as a whole will include depreciation and interest on debt raised by the Government. The budgets of individual agencies and authorities will include depreciation and a 'capital use charge'. Depreciation is based on methodology in Australian Accounting Standard AAS 4 and the capital use charge will be 12 per cent on equity (a 6 per cent risk free rate plus a 6 per cent premium for risk).

Agencies and authorities will be supplemented for the capital use charge through the price of their outputs (based on equity at the beginning of the financial year) and the charge will be levied on equity at the end of the financial year. The capital use charge is eliminated from the consolidated budget estimates as it is a related party transaction.

6.5 *Are the capital and operating budgets financed differently? If so, how?*

No. There is no distinction between the source of funding for capital and recurrent expenditure. As necessary, the Government borrows to service the overall budgetary position, not specifically for capital items.

6.6 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

For amounts included in the annual appropriation bills, funding is provided for a single fiscal year only. The authority under that legislation lapses at 30 June each year. However, standing (or special) appropriations need not be limited by either timing or amount. Accordingly, under some specific legislation funding may be provided for a number of years.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (Such as ministries and agencies)? Or are they treated otherwise? Does*

this differ by type of capital expenditure (e.g. purchase of capital used by the government, grants to lower levels of government, physical and non-physical capital)?

There will be separate operating and capital budgets and the Parliament will pass Appropriation Bills separately for each Commonwealth agency and authority for each type. Capital appropriations will take the form of either equity injections or loans. Grants to lower levels of government will be included in the Commonwealth's operating budget irrespective of the purpose for which the recipient government intends to use the funds.

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

The main budget documents will have tables separating operating and capital appropriations while supporting documents (Program Budget Statements) will attribute the amounts to outcomes and outputs included in those outcomes.

6.9 *Are there any separate (long term) plans for capital expenditures (e.g. infrastructure development) that are used for reference in the annual budget process? Please give examples.*

Could not understand the nature of this question. What does it mean by using plans for capital expenditure for reference in the budget process?

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g. by special earmarked taxes)? Please give examples.*

Financing of the budget is based on the overall cash requirements and is not linked to specific capital expenditures.

6.11 *Does the operating budget include any charges for the use of capital (e.g. depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

See answer 6.4

6.12 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

The cost of multi-year capital projects will be attributed separately to the budget year and three forward estimates years and moneys appropriated accordingly. However, under the accrual environment, an appropriation for capital works in a particular year may be drawn down over more than one year in some cases (e.g. where there are delays in a project).

AUSTRIA

1. Fiscal Performance

Austria's present economic situation is favourable, and it is likely to improve even further during the coming months. GDP growth is back to the EU average and beyond after a number of years of below-average performance, the inflation rate is one of the lowest in Europe and has become a benchmark level for EMU participation, short and long-term interest rates are as low as the lowest in Europe, the deficit in the current account is improving and unemployment is at the second-lowest European level - and projected to fall slightly.

All this was achieved simultaneously with a two-year sizeable budget consolidation program which succeeded in more than halving the general government deficit ratio within two years and to bring down the ratio of government debt to GDP by more than three percentage points. The recent government deficit notification to the EU authorities showed a general government deficit ratio of 2.5 per cent and a debt ratio of 66.1 per cent for the decisive year 1997. This means that the foremost policy goal of the Austrian government during the last years, Austria's first round membership in EMU, will be achieved with near certainty.

This success with respect to consolidation sometimes overshadows the fact that consolidation was part of an overall policy reform strategy during these years. Simultaneously, public sector reform, structural policy (e.g. an export drive and a technology campaign), labour market policies and a number of other strategies were pursued, in order to adapt the Austrian economy to the effects of globalization and increasing competition from within and outside of Europe.

While in retrospect the budget goal was achieved with a comfortable margin, especially the year 1997 witnessed the rather close and permanent control of budget revenues and expenditures and numerous corrective policy decisions have been taken. Thereby the Austrian budget process has proved its ability and determination to react quickly to unanticipated changes in the economic environment and budgetary conditions.

Since the foremost goal of EMU membership has been achieved the fiscal strategy is shifting its focus. For the immediate future, fiscal strategy will be directed to stabilise the structural deficit around the present level, compatible with the rules of the Stability and Growth Pact. In order to reach this goal the government authorities must continue the general consolidation process. The government has replaced the admittedly partly one-off measures which became necessary in the course of 1997, by permanent measures, both on the expenditure and the revenue sides. In addition, the government is using the coming years to embark on a number of reforms of long-term impact which have become necessary either for legal reasons and/or for safeguarding the long-term economic welfare of the Austrian population in the EMU.

The most important of these pertains to the pension reform effected in the fall of 1997. It has made a very important step towards harmonising the different pension systems in Austria, thus also contributing

towards lessening the segmentation of the labour market into a public and a private sector. It will lead to cuts in pension payments, phased in until 2020; it will exert significant disincentives towards early retirement which has become a drag on the system; and it will slow the dynamics of the system by lowering annual pension adjustments. Austria will also in the foreseeable future rely mainly on a pay-as-you-go system as the by far most important pillar of total pensions. As a complement, however, recently a law regulating pension funds has been introduced, in order to strengthen firm-related and personal responsibilities for future pension payments.

A second reform pertains to the family benefit system, where the Constitutional Court ruled that the present system did not take adequate account of the family financing obligations mainly of higher income earners and families with more children. While one could question the overall economic rationality of the ruling, recently agreement was reached between the coalition parties on a package amounting to around 0.5 per cent of GDP in 2001, part of which will be financed out of the surplus of the Family Burden Equalization Fund and part out of the general budget. These costs are planned to be financed by an increased effort to combat tax fraud and illegal labour.

A third item is the continuation of the very successful program of privatisations and moving government entities off-budget.

Another item refers to shifts in the priorities vis-à-vis public employees: there are plans for reducing military service personnel and to speed up the privatising of non-necessary military real estate. As a counterweight, the number of teachers and of border security personnel will be increased.

A very important item on the governments economic agenda is tax reform, scheduled to take place in the year 2000. This reform will mainly set new priorities by changing the composition of taxes, rather than changing the overall tax share. A priority item is the reduction of the tax burden on labour. The Tax Reform Commission established by the Minister of Finance in 1997 has been asked to come up with suggestions and ideas by the end of this year.

At present Austria is drawing up its National Action Plan for Employment along the EU Employment Policy Guidelines decided upon at the Amsterdam Economic Council. A large number of new efforts directed towards increasing employability, equal opportunity, and labour market flexibility, all directed towards improving the match of labour supply and demand, will be introduced. The budgetary costs for these measures will remain small as changes in priorities and the removal of legal and institutional barriers will be prominent; but some costs will be incurred, especially for training purposes of the low-skilled. A number of new models of working time flexibility have recently been introduced, and more are being worked out together with the social partners. The Austrian target for the NAP is to add 100.000 new jobs and reduce the rate of unemployment from the present 4 ½ per cent to 3 ½ per cent by the year 2002.

All in all, Austria seems well prepared to enter the Monetary Union. Care must be taken that the modernisation of the economy will enable Austria to profit from the opportunities arising in this new and exciting venture. Austria has shown in the past that it is able to cope with problems and that its society is willing to bear the costs of necessary changes. The Austrian system of consensus orientation may at times slow down the process of reform, but as the economic data and the absence of social unrest have shown, it has served this country well. It has proven that it can live up to serious challenges. There is consensus by all parties involved, namely business, labour and the government, that these processes and institutions themselves also must adapt themselves to the new times.

The Ministry of Finance is determined to continue path of budgetary consolidation as set out in Austria's convergence program update. This implies the continued achievement of a positive primary budget

balance in the order of at least 2 per cent of GDP for the next years to come. Negotiations with the other levels of government have been conducted and processes of mutual consultation are under way, in order to better co-ordinate budget policies. In addition to continued consolidation efforts, active measures to safeguard medium-term competitiveness, involving a large number of structural and labour market policies, are envisaged. Modernisation of the tax system will be advanced with the next tax reform. In this way, we feel that Austria is well prepared to face the challenges of the future.

2. Role of the Legislature

2.1 According to art. 51 par.1 of the Federal Constitution (B-VG) the draft of the Federal Finance Act has to be submitted for consultations to the National Council by the Federal Government. This draft can be amended by the National Council. The "approval" of the draft Federal Budget takes place according to art. 42 par.5 (B-VG) with enactment by the National Council alone.

Therefore the legislative initiative comes only from the Federal Government. Only if the government is defaulting, members of the National Council can propose an initiative motion.

Beside it, there are special constitutional provisions concerning "provisional budgets" (art.51 par.5 B-VG), in "defence case" (art.51b par.6 B-VG) as well as by "imminent danger" (art.51b par.2 B-VG).

2.2 The National Council can in principle amend the draft of the Federal Government in any way during the parliamentary treatment. Generally, the National Council is following the draft and makes only slight corrections. Motions of amendment of the Federal Government are not permitted after the parliamentary consultations on the federal draft have begun.

In our view, the National Council is not taking a "more active role" today than ten years ago.

2.3 The principle of the budget unity is in effect (see section 16 of the Federal Budget Act and the vague definition of art. 51 par.3 B-VG), which should describe the Federal Budget.

This principle is jeopardised in practice by "subsidiary budgets" (escape from the budget) separate (independent) legal entities, which are under the influence of the federation.

The draft Federal Finance Act submitted by the Federal Government is assigned by the National Council to a committee (budget committee) for non public deliberation, in which member of the Federal Government are also taking part.

Propositions from the government concerning the limitation of expenditures (e.g. in relation to the Maastricht criteria) are taking place in the frame of the draft Federal Budget.

Informations concerning the Federal Budget are essentially given in the "*Erläuterungen*" and in the "*Amtsbehelfen*". Other informations are submitted to the Members of Parliament in the so-called "Budget-Hearing", where the ministry of finance is represented.

The delegated powers to issue financial regulations are only related to receipts and expenditures of one financial year according to art. 51 par.2 B-VG. For undertakings over several years (previous charges) special budget regulations are in force (§45 BHG see annotation to item 6.12)

Expenditures are only being made in the extend in which means are assigned to planned appropriations.

For extra- and overplanned expenditures, a delegation of power is needed in the current financial year, which has to be obtained (art.51b B-VG).

3. Fiscal Relations with Lower Levels of Government

3.1 Central government, regional governments and representatives of local governments have agreed to establish formal mechanisms to ensure fiscal discipline.

The system will consist of two parts:

- an agreement not to pass over the costs of new legislation to other governments against their will. The principles of the agreement are an obligation
 - * to inform all other governments of planned legislation and resulting costs (calculated according to specified rules);
 - * to negotiate who should bear costs and - if no unanimous solution is found - to pay resulting costs. The Austrian Constitutional Court decides in case of litigation.
 - * The text of this so called "*Konsultationsmechanismus*" (consultation mechanism) is fully negotiated and thought to be a precondition for
- a second agreement which will concentrate on fiscal stability: *Österreichischer Stabilitätspakt* (Austrian fiscal stability pact). It is planned to define responsibilities of governments for fulfilling fiscal criterias of the EU. It's contents will be
 - * an obligation to harmonise fiscal planning and
 - * a distribution of deficit quotas to all levels of government. According to an existing understanding federal government intends to negotiate a federal share of 90 per cent and a 10 per cent share for all other levels of government of a nation-wide deficit-quota. The agreement should be so detailed, that a sanction of the Union in case of an excessive deficit can be passed on to the respective government.

3.2 No, not yet. The planned fiscal stability pact will enhance co-ordination of fiscal planning of all levels of government.

3.3 There are no restrictions as far as national government is concerned. But Länder (regional) governments have to approve municipal budgets. Municipalities are entitled to contest such a decision at court.

3.4 As far as national government is concerned, there exists no such active role right now (except of a small possible 15 millions ATS grant in the federal budget for all municipalities). But in Austria's Fiscal Constitutional Law an article stipulates for the federation to distribute taxes according to fiscal capacity and financial needs of all governments.

Länder governments are supposed to prevent local governments experiencing financial difficulties. If they fail to do so they have the means to assist such local governments, because they are entitled to distribute 13.5 per cent of the local share of federal taxes according to their own criterias and are supposed to assist at least with that fiscal instrument.

4. Managerial Flexibility

4.1 *The spending entitlements refer to the level of "appropriation accounts", of which the budget contains about 1200.*

The criteria of classification in the Federal Budget have an organ oriented as well as a public financial structure.

Organ oriented structure

Subdivision in groups, which are again separate according to the handled matters in chapters, inside which an allocation to headings regarding their original causes or the reason for their affiliation to related subjects is taking place. If required, the headings are again subdivided in sections.

Public financial structure

The respective lowest organ oriented subdivision is again subdivided in expenditures for investments, incurred promotions and expenses, divided between legal obligations and discretionary expenditures allocated to bearing units.

Own budget appropriations are needed for personnel expenses.

The main budget document consists of "Chapters" (*Teilhefte*) and a hierarchy of main accounts within each individual estimates. The Chapters contain the receipts and expenditures of the various separate branches of government, e.g. Federal Ministry of Finance or Federal Ministry of Education and Culture. The structure of main accounts mirrors the administrative structure, in most cases with separate accounts for each agency and institution. Each main account is subdivided into appropriation accounts (*Voranschlags-Ansatz*), on the basis of a modified financial classification. Each appropriation account contains a number of (sub)lines, which enables to identify type end destination of all transactions. In Austria the division into subheads is based on a system of classification in which all revenue and expenditure is categorised according to its economic nature:

revenues: tax receipts, administrative receipts, receipts of enterprises, pension contributions of employees, profits of fiscal monopolies, grants, loan repayments, sales of securities, drawdown in reserves, receipts from borrowing

expenditures: personnel costs, expenses for goods and services, interest paymants, intragovernmental transfers (transfer to *Länder*, Funds, Social Security institutions, Federal Chambers), grants and subsidies, loans issued, gross investment, debt repayment, build-up of reserves, purchase of equities and securities.

In addition each subhead is allocated a functional code corresponding to the UN functional code system.

4.2 *Additional expenditures on one preliminary budget item can essentially only be accomplished if the same amounts are deferred on one or several budgetary items.*

Under certain conditions an agreement has to be reached with the ministry of finance, which is only allowed to agree if the provision of cover for the expenditures for the federal obligations are secured when due and the measure is compatible with the principles of prudence, economy and effectiveness.

Beyond that, other restrictions can be provided by the ministry of finance in agreement with the respective budgetary organ for an item compensation.

4.3 *The transfer of federal tasks to other legal entities is admissible to the extent that these expenditures are not concerning tasks, which can constitutionally (e.g. security matters, administration of justice etc.) only be exercised by federal organs in the frame of the indirect federal administration (art.102 B-VG).*

Provided by §59 sect. 5 Federal Household Act, certain preconditions are necessary for transfers in order to ensure an "efficient" implementation.

Transfers of federal tasks to other legal entities -e.g. which have to be founded by the federation first- take place by law. Under certain conditions a transfer to third parties through contracts is possible.

4.4 *The Minister of Finance has the possibility under certain conditions, through partial payments of estimated expenditures, which were not utilised, to supply a reserve fund (§53 Federal Household Act), if the transfer in the following year is promoting a prudent, economic and effective use of the means and if the appropriation is still in effect.*

In so far as it concerns payments of not asserted claims of receipts to specific purpose, they have to be supplied to reserve funds if the appropriation is still in force.

In this way, expenditure credits for a subsequent financial year are saved. Like this, it can be avoided that available means at the year's end are spent on purpose in order to avoid their forfeiture.

The ministry of finance is allowed to agree to further supplies to reserve funds pursuant to its statutory powers.

4.5 *An anticipating possibility for future budgetary authorisations is existing in the frame of previous charges (§45 Federal Household Act) and in order to contract them, an agreement with the ministry of finance has to be reached. Compliance with several authorisation elements have to be observed (principles of prudence, economy and effectiveness, provision of cover, security, that no financial liability is coming into being, obtainment of a Federal Enabling Act if exceeding a specific value) and under certain conditions the budget committee of the National Council has to be informed by quarterly reports about its granted approvals.*

4.6 *The staffing plan, which is a part of the Budget, regulates the number and quality of personnel for each ministry, agency and institution. In addition, it contains detailed regulations for staff management. Every single post within the federation is valued.*

5. Accrual Accounting and Budgeting

5.1 *The accounting system of the federal budget is cash-oriented, combined with obligation and accrual accounting. The New Method of Austrian Public Accounting (Verfahren der Neuen österreichischen Staatsverrechnung) established in 1968 makes it possible to handle the Government's budget and accounting cycle from the first step in the budgetary phase to the publication of the final public accounts. Further all accounting operations are entered simultaneously in the respective budget cost accounts and in the balance and the profit and loss accounts.*

In the accounting cycle the following phases are distinguished:

- Budget appropriation by Parliament (phase 1) Allocation of the funds (phase 2)

- Commitments incurred or orders placed (phase 3)
- Acquisition of goods and services (phase 4)
- Payments for goods and services received (phase 5)

The first step of spending agencies toward the utilisation of appropriated funds is to place orders for goods and services needed during the year. Such orders, which result in incurring obligations, can be placed at any time during the fiscal year. Accounts maintained for such purposes are said to be obligations and represent commitments to acquire goods or services and include orders placed, contracts awarded and related transactions, requiring money disbursements usually at a later date. The next stage in the administrative process is the acquisition of goods and services, which is part of the accrual accounting, too. The final step in the process is the payment for services and goods received and is the cash basis of accounting.

Commitment accounting is a very useful tool for monitoring expenditures. This purpose cannot be served by accrual or cash accounting alone. The accrual accounting system facilitates the identification and the performance of the various work units and therefore could serve the overall purposes of budget formulation and program management. The system of accrual accounting forms also the basis for national income accounting. It is the best indicator of the economic impact of the budget as it refers to the time when the government actually incurs a liability or registers a claim. The cash system permits an easy identification of the impact of government operations on the economy as actual payments made by government tend to increase the money supply and stimulate the economy while each payment to the government decreases solvency. A cash-based concept of budget deficit provides a meaningful assessment of the impact of government operations in the field of demand management. It also facilitates the analysis of the impact on financial and credit markets. The government should know its own cash position, and cash accounting permits this. It is also more comprehensive than national accounts, as the cash-based system includes loan transactions, which are excluded from the national accounts.

5.6 *The fundamental principles of budgeting and accounting in Austria are the following:*

- annual budgeting: The budget is to be prepared on an annual basis for every calendar year.
- single budget: Revenues and expenditures are to be covered in one budget.
- comprehensiveness: All revenues and expenditures are to be estimated for in the budget.
- cash basis: Austrian budget is a cash budget.
- accounting on a gross basis: All receipts and payments are to be shown separately and in full, i.e. without offsetting one against the other, accounting for them gross.
- overall coverage: All revenue is available to meet all expenditure.
- balanced budget: The budget has to be balance in respect of the estimated revenues and expenditures, i. e. expenditures must not exceed revenues plus net borrowings.
- reliability of the budget: The estimation of future revenues and expenditures should be realistic as possible so as to permit a reliable overview of the future management of the budget.
- transparency of the budget: The budget should be easily understandable.
- current-year budgeting: The budget has to contain all revenues likely to accrue and expenditures expected to be incurred during the financial year.
- classification according to origin and purpose: Revenues are to be classified according to their origin and expenditures according to their purpose.
- efficiency and economy: In drafting and implementing the budget regard is to be given to the need for efficiency and economy.

- public access: there should be publicity for the budget and its implementation, including the audit, throughout the entire budgetary cycle.

5.7 *The budget is presented to the legislature on cash basis.*

6. Capital budgeting

6.1 *Capital expenditures and operating expenditures are consolidated in a single budget.*

6.2 *No*

6.7 *Yes. See also item 4.1*

6.8 *Yes, in the annex*

6.9 *No*

6.10 *Capital expenditures financed by earmarked taxes are negligible.*

6.11 *No*

The Federal Finance Act contains all receipts and expenditures for one financial year.

Liabilities which were already entered into for projects over several years are representing previous charges over the following budgetary years and are in reality clashing with the budget principle of a one year period. They are binding the future legislator, who has to allocate the funds, previously asserted by the administration. Medium-term planning instruments like the budgetary program of the Federal Government should in fact prevent from the disadvantages of the one year budget period.

BELGIUM

1. Résultats budgétaires

1.1 Besoins nets de financement de l'ensemble des administrations publiques (en milliards de francs)

		1996		1997		1998 initial		1998 ajustement	
PIB		8 305,0		8 661,5		8 968,5		9 003,2	
BNF		Montant	% du PIB	Montant	% du PIB	Montant	% du PIB	Montant	% du PIB
(1)	Pouvoir fédéral	- 250,1	3,01	- 214,0	2,47	-224,2	2,5	171,1	1,9
(2)	Rég. & Com.	- 38,7	0,47	- 20,0	0,23	- 17,9	0,2	18,0	0,2
(3)=(1)+(2)	Pouvoir central	- 288,7	3,48	- 234,0	2,70	- 242,2	2,7	189,1	2,1
(4)	Sécurité sociale	1,8	- 0,02	21,0	- 0,24	17,9	- 0,2	27,0	- 0,3
(5)	Pouvoirs locaux	20,1	- 0,24	14,0	- 0,16	17,9	- 0,2	9,0	- 0,1
(6)=(3)+(4)+(5)	Ens.adm.publ.	- 266,9	3,21	- 199,0	2,30	-206,3	2,3	-153,1	1,7

1.2 En ce qui concerne la politique budgétaire à court et moyen terme, le Gouvernement s'est notamment fixé pour objectif d'atteindre un surplus primaire de 6,4 per cent pour l'ensemble des Pouvoirs publics dans les définitions budgétaires usuelles, ce qui, traduit en méthodologie des comptes nationaux, correspond à un niveau de 6 per cent du produit intérieur brut.

Grâce à ce niveau de surplus primaire, la Belgique réalise un objectif supérieur à celui annoncé dans le nouveau programme de convergence.

Cet ajustement se traduit automatiquement d'effets sur le rythme de réduction de l'endettement, pour lequel la prévision initiale de ramener le ratio fin 1998 à 122,3 per cent est revue fondamentalement avec un nouvel objectif de 118,5 per cent, soit près de 4 points de mieux.

2. Rôle du parlement

2.1 *La Chambre des Représentants* est investie du pouvoir d'approbation du budget et, le cas échéant, d'y apporter les amendements qu'*elle* estime nécessaires.

- En droit, la Chambre des représentants ne connaît aucune limitation quant à son pouvoir d'amender un projet de budget. De même, son contrôle, qu'il soit direct (débats en "Commission du Budget et des Finances", débats en "séances plénières", questions parlementaires) ou qu'il soit réalisé par l'entremise de la Cour des Comptes n'est nullement limitatif.

- Dans les faits, deux facteurs au moins s'imposent de manière contraignante à la Chambre des Représentants: d'une part, les dépenses incompressibles et récurrentes telles, par exemple, celles qui sont obligatoires en raison du principe de la continuité des services publics ou de l'engagement contractuel de l'Etat à un niveau international ne font l'objet d'aucun débat ; d'autre part, une modification substantielle d'un projet de budget par la Chambre des Représentants équivaldrait à poser "la question de confiance" à l'égard du Gouvernement au risque d'en provoquer la chute ; or, en dehors des périodes de crises politiques aiguës, le Parlement évite de provoquer de telles situations.

Il ressort de cette analyse factuelle qu'en matière budgétaire, c'est, en définitive, le Gouvernement l'organe "fondamental", voire "fondateur".

2.2 En règle générale, la Chambre des Représentants adopte le projet de budget "majorité contre opposition".

Ce vote porte sur les programmes budgétaires et non sur les allocations de base.

Durant le premier trimestre de l'année budgétaire en cours, chaque département a l'opportunité, sur base de l'expérience qui a été la sienne pendant ces trois premiers mois, de "réajuster" la hauteur des crédits qui lui sont alloués : il s'agit de l'ajustement du Budget général, issu du "contrôle budgétaire".

Les ajustements proposés doivent être déposés au Parlement au plus tard pour le 30 avril de l'année budgétaire concernée.

La Chambre des Représentants a jusqu'au 30 juin pour procéder au vote.

Outre cette procédure spécifique, il est assez rare que la Chambre des Représentants amende un budget de manière significative ; par ailleurs, les amendements proposés ne portent en général que sur des points spécifiques ou de détails et n'ont, jusqu'à présent, jamais concerné l'ensemble du budget ni un pan important de ce dernier.

Il est excessivement difficile de chiffrer, en nombre, en montant ou en fonction de leur "origine", de tels amendements, d'autant qu'ils ne sont que rarement révélateurs de véritables "malaises" ou d'authentiques intentions d'obvier la politique budgétaire en cours.

2.3 Parmi les principes de droit budgétaire belge, existe celui de l'unité ou unité de caisse.

Pour le budget de l'Etat Fédéral comme pour celui des Entités fédérées, l'unité de caisse signifie que "toutes les Recettes de l'Etat sont centralisées au budget des Voies et Moyens et versées sur un compte unique à l'Office des Chèques Postaux pour être utilisées au payement des dépenses de l'Etat".

Par Etat, il y a lieu d'entendre le Pouvoir Central (le principe vaut donc pour toutes les Entités du Pouvoir central, mais uniquement chacune pour ce qui la concerne... en d'autres termes, il y a autant de budgets que d'Entités mais chacune d'elles doit respecter ce principe de l'unité) à l'exclusion de toutes les Entités décentralisées ou déconcentrées (Provinces, Communes, ASBL, etc...) qui ont leur propre mode de gestion budgétaire (grande part d'autonomie fonctionnelle).

Il faut, par contre, assimiler à l'Etat les Organismes d'intérêt Public (agences, parastataux et établissements publics) dont le mode de gestion et de contrôle est directement et complètement sous l'autorité d'un Ministre (O.I.P. de catégorie 'A'). Il en est de même de tout le secteur de la Sécurité sociale.

Par ailleurs, dans une phase ultérieure, la comptabilité de l'ensemble du secteur public fait l'objet d'un traitement spécifique par l'Institut des Comptes Nationaux.

2.4 A. PHASE PRÉPARLEMENTAIRE (PRÉPARATION DU BUDGET)

- L'Administration du Budget et du Contrôle des Dépenses propose au Conseil des Ministres les directives en vue de l'élaboration du budget.

Après accord du Conseil des Ministres, le Ministre du Budget diffuse une circulaire dans les départements ministériels (début mars). Cette circulaire comporte les paramètres techniques qui seront utilisés pour élaborer la préfiguration du budget de l'année civile suivante.

- Ces départements établissent alors des fiches budgétaires par article : ce sont leurs demandes de crédits.
- L'avant-projet de budget et le rapport de l'Inspection des Finances sont soumis au Ministre du Budget pour le 1^{er} juin.
- Toutes les propositions budgétaires sont centralisées et examinées par l'administration du Budget et du Contrôle des Dépenses (libellés, crédits, gros postes). Le Gouvernement dispose ainsi d'une préfiguration des recettes, des dépenses et des soldes budgétaires.
- Viennent ensuite les réunions "bilatérales" auxquelles participent les responsables et "techniciens" du cabinet du budget, les responsables du budget de chaque département ministériel (Chef de cabinet, Secrétariat Général, Direction Générale, Comptables,...), divers techniciens, ainsi que les fonctionnaires compétents de l'Administration du Budget.
- Après ces réunions, les propositions budgétaires des départements sont analysées et éventuellement modifiées voire amputées par un Comité Ministériel (traditionnellement appelé le "Comité de la hache") : il s'agit du conclave budgétaire. Le conclave budgétaire se clôture par un Conseil des Ministres.
- Les projets de budget (Voies & Moyens et Dépenses) sont imprimés sous la responsabilité du Ministre du Budget et déposés sur le bureau de la Chambre des Représentants avant le 31 octobre précédant l'année budgétaire concernée. L'Exposé Général du Budget est également déposé pour le 31 octobre au plus tard.

B. PHASE PARLEMENTAIRE D'ADOPTION DU BUDGET

Dans l'enceinte parlementaire, les projets de budget sont d'abord discutés en Commission des Finances et du Budget de la Chambre des Représentants, puis en séance publique.

Après avoir été votés, les budgets sont sanctionnés et promulgués par le Roi puis publiés au Moniteur.

C. PHASE PARLEMENTAIRE DE PRÉ-CONTRÔLE

Considérant que, pour exercer un contrôle politique efficace, la Chambre des Représentants ne doit pas nécessairement être en possession de comptes certifiés exacts jusque dans le moindre détail (ce qui est en partie la cause du dépôt souvent tardif de la loi de compte), la Cour des comptes est chargée de communiquer, dans le courant du mois de mai, une préfiguration des résultats de l'exécution du budget de l'année précédente.

Cette préfiguration pourra donner lieu à l'adoption d'une motion motivée de règlement provisoire du budget.

Pour ce faire, la Cour peut se baser sur ses propres données et sur les écritures de la Trésorerie, notamment sur la situation générale du Trésor public au 31 décembre, qui doit être distribuée le 30 avril de l'année suivante, accompagnée du compte provisoire.

D. PHASE PARLEMENTAIRE DE CONTRÔLE (ADOPTION DE LA LOI DE COMPTE)

La loi de compte, intitulée "loi portant règlement définitif du budget", présentera sous des rubriques distinctes :

§1. en recettes : les prévisions, les droits constatés, les recettes imputées (sommes versées au profit de l'Etat), la différence entre les droits constatés et les recettes imputées, les droits à annuler ou à reporter à l'année suivante ou en surséance indéfinie et, à titre statistique, la différence entre les prévisions et les recouvrements ;

§2. en dépenses :

* *pour ce qui concerne les engagements :*

Les crédits initiaux, les ajustements de crédits opérés en cours d'année (en plus ou en moins), les crédits reportés, les engagements comptabilisés dans le courant de l'année budgétaire, les crédits disponibles à la fin de l'année budgétaire répartis en crédits reportés ou à annuler ;

* *pour ce qui concerne les ordonnancements :*

Les crédits initiaux, les ajustements de crédits (en plus ou en moins), les crédits reportés, les dépenses de l'année réparties, d'une part en opérations imputées à charge de prestations d'années antérieures ou de l'année en cours, d'autre part en paiements visés par la Cour des comptes régularisés ou restant à régulariser, les crédits complémentaires à accorder, les crédits à reporter ou à annuler.

C'est dans le courant du mois d'octobre suivant la fin de l'année budgétaire que le Ministre des Finances dépose à la Chambre des Représentants, le projet de loi portant règlement définitif du Budget.

Lié étroitement à la loi de compte sur laquelle la Chambre doit se prononcer, le compte général de l'Etat doit nécessairement être à la disposition du Parlement au moment où cette loi sera discutée.

2.5 La Chambre des Représentants ne bénéficie d'aucune "ressource" spécifiquement ou spécialement affectée au traitement des matières budgétaires. Il faut toutefois noter qu'à chaque législature une Commission du budget est mise en place en son sein. Par ailleurs, la Chambre des Représentants bénéficie des compétences de la Cour des comptes qui dépend directement d'elle.

2.6 La nature même de la décision législative est de poser les limites dans lesquelles le Gouvernement va devoir procéder pour réaliser son programme politique : il s'agit de fixer les montants - en principe, maximaux des dépenses.

En outre, selon le droit constitutionnel belge, le budget procède d'une loi. Cette loi a "valeur" équivalente à toute autre norme de même nature¹.

Ceci étant entendu, une loi (non budgétaire, s'entend) peut, le cas échéant, contenir un certain nombre d'implications budgétaires ; si tel est le cas, l'antériorité d'une loi sur l'autre lui donnant une "primauté", il sera forcément tenu compte de ces implications à l'occasion des "discussions bilatérales" préparatoires de la loi budgétaire. Cela signifie donc qu'avant même la préparation d'un budget, le Législateur a, par le biais de l'usage préalable qu'il a fait de ses compétences législatives, fixé un certain nombre de "balises" dont doit nécessairement tenir compte le Gouvernement.

Pour le surplus, la Chambre des Représentants est, constitutionnellement, maître en matière budgétaire : c'est elle qui fixe, souverainement, l'ensemble des ressources de l'Etat ainsi que ses dépenses. Il convient cependant de remarquer qu'en politique, la Chambre des Représentants s'écarte rarement des projets de budgets qui lui sont soumis par le Gouvernement.

2.7 Le projet de Budget général des dépenses et de Budget des Voies et Moyens est soumis chaque année au Parlement accompagné de "l'Exposé général". Cet Exposé général contient une synthèse et une analyse des budgets, *ainsi que les renseignements nécessaires* à l'information des Chambres sur la situation économique et financière du pays, de même qu'une estimation pluriannuelle.

Par ailleurs une autre source de documentation non négligeable mise à la disposition des députés est "la note de politique générale" établie département par département et accompagnant les documents budgétaires.

2.8 Tous les programmes budgétaires, sans exception, font l'objet d'un vote annuel : c'est ce que l'on appelle, en droit budgétaire belge, le principe de "l'annualité".

1- Portée du principe

L'année budgétaire commence le 1^{er} janvier et finit le 31 décembre.

Le budget doit être approuvé annuellement par le pouvoir législatif et les crédits qui y sont inscrits couvrent exclusivement les besoins de l'année considérée afin que la chambre puisse contrôler régulièrement l'action de l'exécutif. Cela permet aussi d'avoir une plus grande exactitude dans la prévision.

2- Crédits d'engagement et d'ordonnancement

Le système budgétaire belge connaît deux "types" de crédits : les crédits d'engagement et les crédits d'ordonnancement.

Les crédits d'engagement correspondent aux montants maxima qu'un Ministre peut engager -c'est-à-dire pour lequel il peut engager l'Etat - au cours de l'année considérée.

Les crédits d'ordonnancement sont ceux qu'un Ministre peut ordonnancer -c'est-à-dire pour lesquels il peut donner l'autorisation de payer- au cours de la même année.

Toutes les "allocations de base" sont reprises sous ces deux formes de crédits. Les crédits d'engagement et d'ordonnancement sont "traités" de manière identique et sont repris, l'un et l'autre, dans les documents budgétaires approuvés par la Chambre des Représentants.

3- Procédure de reports de crédits

Il y a lieu, ici, de faire appel à la distinction entre crédits dissociés (en crédits d'engagement et en crédits d'ordonnancement) et non dissociés (où la hauteur du crédit d'engagement est identique à celle du crédit d'ordonnancement).

1. Report de C.N.D. : la partie d'un C.N.D. engagée au cours d'une année budgétaire mais non encore ordonnancée à la fin de cette même année peut être reportée à l'année suivante. Au terme de la seconde année, toutefois, la partie des crédits reportés mais non ordonnancés tombe en annulation (*sauf dans le cas particulier du "cavalier budgétaire" qui est une disposition dans le dispositif d'une loi budgétaire autorisant de déroger aux principes de la comptabilité publique ou à la législation permanente*).
2. Report de C.D. : en vertu de l'article 35 §1 des lois sur la Comptabilité de l'Etat coordonnées le 17 juillet 1991, les crédits dissociés (tant les crédits d'engagement que les crédits d'ordonnancement) disponibles à la fin de l'année budgétaire tombent en annulation ; toutefois, en cas de nécessité dûment motivée, la partie d'un crédit dissocié engagée mais non encore ordonnancée à la fin de l'année budgétaire pourra être reportée dans la mesure de la partie des crédits reconnue, par arrêté royal, nécessaire à la réalisation de l'objet pour lequel le crédit a été alloué.

Qu'il s'agisse de C.N.D. ou de C.D., de tels reports doivent faire l'objet d'un projet de Loi déposé par le Ministre des finances avant le 31 août de l'année suivant la période budgétaire concernée : en aucun cas, il ne s'agit donc d'une procédure "automatique".

Par ailleurs, dans le cadre de ce qui a été expliqué ci-avant, la partie reportée d'un crédit, qu'il soit dissocié ou non, garde toujours son affectation initiale puisque, par définition, il a été "engagé" sous cette affectation.

Les crédits ou parties de crédits non ordonnancés et non engagés au 31 décembre de l'année considérée tombent automatiquement en annulation ; il faut cependant préciser qu'en ce qui concerne les crédits variables (crédits qui ne peuvent faire l'objet d'une dépense que dans la mesure de recettes au **moins** équivalentes), on prend en considération, lors des négociations fixant leur hauteur, les éventuels soldes positifs de l'année budgétaire précédente (recettes excédentaires par rapport aux dépenses).

4- Programmes pluriannuels

Force est de constater que l'exécution de nombreux contrats, et par conséquent des dépenses y relatives, s'étale sur une période dépassant largement l'année budgétaire. Dans cette hypothèse, il y a évidemment impossibilité matérielle d'imputer ce type de dépenses l'année même de sa naissance. Il y a donc eu lieu de faire une distinction entre crédits, selon l'étalement dans le temps des contrats qu'ils concernent et, partant, selon les techniques budgétaires qui leur seront appliquées.

Ainsi l'on doit à nouveau distinguer:

- a. Les crédits non dissociés (C.N.D.) qui concernent les dépenses les plus courantes, souvent ponctuelles et toujours relatives à des contrats dont la durée d'exécution est inférieure à un an. Dans le cas des crédits non dissociés, la hauteur des crédits d'engagement et d'ordonnancement est la même. Pour ces C.N.D, les paiements relatifs aux obligations d'une année donnée peuvent toutefois intervenir jusqu'au 31 décembre de l'année suivante mais à charge des crédits reportés (cfr. ci-après).
- b. Les crédits dissociés (CD) qui concernent des contrats importants de fourniture, infrastructure etc... s'étalant sur plusieurs années comprennent, par poste budgétaire, un crédit d'engagement et un crédit d'ordonnancement distincts.

2.9 Le terme de "collectif budgétaire" semble correspondre, dans le jargon budgétaire belge, à la notion de "feuilleton d'ajustement". Il en a été traité précédemment dans le cours de la réponse à la question 2.2.

En pratique, la législation belge prévoit, au cours de chaque exercice budgétaire, un "ajustement général". Celui-ci a lieu à la fin du premier trimestre de l'année budgétaire en cours et suit la même procédure que celle décrite au point 2.4.

Outre cet ajustement "systématique", il est relativement exceptionnel que le Gouvernement entreprenne et mette en oeuvre un feuilleton. Il est cependant évident que, lors des changements de Gouvernement, la nouvelle majorité s'emploie à reconsidérer fondamentalement la politique budgétaire mise en place par l'exécutif précédent.

3. Relations avec les niveaux d'administration inférieurs

3.1 Non.

3.2 Non

3.3 En principe, non : les pouvoirs locaux ont une large autonomie de gestion, notamment en matière budgétaire.

3.4 Les Pouvoirs locaux sont théoriquement tenus de garder leur budget en équilibre. Si tel n'est pas le cas, leurs Organes de tutelle peuvent intervenir selon différentes procédures : aide ponctuelle et spécifique, substitution des décisions prises, "sanctions"... Il convient toutefois de noter que cette tutelle n'est plus de la compétence du Pouvoir fédéral.

Pour être tout à fait complet, il faut cependant préciser que les Pouvoirs subordonnés "bénéficient" encore de quelques gros postes budgétaires à charge de l'Etat fédéral. Ces postes affectent principalement le budget de la Dette, celui de la Santé publique, celui des Pensions ainsi que celui des Affaires intérieures.

4. Flexibilité en matière de gestion

4.1 et 4.2

Les questions posées aux points 4.1 et 4.2 font appel au principe budgétaire de la "spécialité".

Ce principe a pour but d'attribuer une place à "chaque chose" dans le Budget de l'Etat. Ainsi, qu'il s'agisse du Budget des Voies et Moyens (Recettes) ou de celui des Dépenses, il a paru utile au Législateur de les hiérarchiser et de les structurer.

Il convient ici de distinguer la spécialité légale de la spécialité administrative.

- La spécialité légale détermine le niveau de précision auquel chaque département ministériel est tenu de ventiler les "enveloppes des crédits" qu'il soumet à l'approbation du Parlement lors du dépôt du Budget Général.

Ainsi, pour respecter le principe de la spécialité légale, le projet de loi contenant le Budget Général des Dépenses doit se subdiviser, département ministériel par département ministériel, en 'Divisions Organiques', lesquelles doivent elles-mêmes être détaillées selon différents 'Programmes'.

Le Budget Général des Dépenses du Pouvoir fédéral compte environ **400 programmes**.

- La spécialité administrative impose une ventilation des programmes en allocations de base conformément à la classification économique avec indication des dépenses affectées au service financier des dépenses préfinancées. Cette disposition ne s'applique pas aux crédits prévus pour les dotations.

Les 400 programmes du Budget Général des Dépenses du Pouvoir fédéral comptent environ **3 000 allocations de base**.

Pratiquement, le principe de la spécialité - qu'elle soit légale ou administrative - se traduit par le fait que les budgets des recettes et dépenses sont "classifiés" en un certain nombre de positions budgétaires qui précisent leur nature.

Budget	Division / Programme / Activité	Allocation de base
Organique		
Spécialité légale (Budget Général des Dépenses)		
Spécialité Administrative		

Lorsque la Chambre des Représentants vote le budget, ce vote porte, en définitive, sur les programmes, non sur les allocations de base.

Cela a pour conséquence directe que les programmes sont totalement "verrouillés", que le Pouvoir exécutif ne peut en changer ni la teneur ni le contenu : il faut impérativement un vote de la Chambre des Représentants (à l'occasion d'un contrôle budgétaire, par exemple).

En ce qui concerne les allocations de base, il existe une dérogation au principe de la spécialité administrative: il s'agit d'une procédure de reventilation des allocations de base.

4.3 Rien ne s'y oppose pourvu qu'aucune objection n'émane de l'inspection des Finances et que la législation en matière de marchés publics soit respectée.

4.4 Ce point a déjà été abordé précédemment dans le développement de la réponse à la question 2.8.

4.5 Ce point a déjà été abordé précédemment dans le développement de la réponse à la question 2.9.

4.6 Les Départements ministériels, Corps Spéciaux d'Etat, Organismes d'intérêt Public -toute catégorie confondue- ainsi que les Etablissements à gestion séparée sont tenus au respect de la législation en matière de Fonction publique.

Ils fonctionnent, en matière de personnel, sur base de "cadres" fixés de manière assez rigide, cas par cas, en fonction des besoins et nécessités du département, du corps spécial, de l'organisme ou de l'Etablissement concerné.

En principe, à l'intérieur et dans le respect de ces cadres, les Chefs d'Administration ou Organes de gestion ont un véritable pouvoir de décision.

Toutefois, dans certains cas exceptionnels nécessitant des mesures draconiennes, le Gouvernement a réglementé très strictement la politique de l'emploi... allant parfois jusqu'à interdire tout nouvel engagement de type statutaire ou contractuel, dans le secteur public comme dans le secteur privé. Ces mesures, qui sont limitées dans le temps, s'imposent bien entendu aux gestionnaires publics quel que soit l'état de leur cadre.

Enfin, plus régulièrement, par le biais des circulaires budgétaires, le Gouvernement "encadre" la politique de l'emploi dans le seul secteur public : il s'agit, par exemple, d'imposer une "croissance zéro" des emplois occupés dans l'ensemble du secteur. De telles décisions affectent tant les Départements ministériels, les

Corps Spéciaux d'Etat que les Organismes d'Intérêt Public -toute catégorie confondue- que les Etablissements à gestion séparée.

Dans la pratique, il est clair cependant qu'en dépit de ces mesures, les Organismes et Etablissements qui bénéficient d'une plus grande autonomie financière, fut-ce parce qu'ils ont des recettes propres, recourent à des méthodes "parallèles" pour s'octroyer le personnel qui leur est nécessaire à l'accomplissement de leur mission.

5. Comptabilisation sur base de l'exercice et budgétisation

5.1 et 5.2

La réponse à ces questions fait suite et complète les éléments développés à la question 2.8.

La Belgique a appliqué le système de l'exercice jusqu'en 1966 et le système de la gestion depuis 1967.

"L'année budgétaire commence le 1^{er} janvier et finit le 31 décembre suivant" (Loi 28 juin 1963, art. 2, al. 2).

Mais le système de la gestion tel qu'il est appliqué dans notre pays est en réalité un système mixte.

En matière de recettes :

"Les prévisions de recettes portent sur les sommes qui seront versées au profit de l'Etat au cours de l'année budgétaire" (Loi du 28 juin 1963, art. 4). C'est donc le système de la gestion axée sur les sommes versées.

En matière de dépenses :

a) crédits non dissociés :

"Les crédits de dépenses portent sur les sommes qui seront dues par l'Etat du chef d'obligations nées à sa charge au cours de l'année budgétaire" (Loi du 28 juin 1963, art. 5). C'est donc le système de l'exercice axé sur les engagements. Cependant, "Les crédits de dépenses couvrent à la fois les actes d'engagement et les opérations d'ordonnancement" (Loi du 28 juin 1963, art. 7 § 1^{er}).

b) crédits dissociés :

"Toutefois, lorsque les crédits concernent des travaux ou des fournitures de biens ou de services, qui nécessitent un délai d'exécution supérieur à douze mois, ils peuvent être dissociés en crédits d'engagement et crédits d'ordonnancement.

Dans ce cas :

- le crédit d'engagement prévoit le montant des obligations qui peuvent être contractées pendant l'année budgétaire ;*

- *le crédit d'ordonnancement prévoit le montant qui peut être ordonnancé au cours de l'année budgétaire, en vue d'apurer des obligations contractées tant pendant celle-ci qu'au cours des années antérieures" (Loi du 28 juin 1963, art. 7, § 2).*

Ici, le système adopté est celui :

- de la gestion basée sur les engagements, pour les crédits d'engagement. L'engagement est, somme toute, la phase finale de l'opération qui peut être effectuée sur le crédit;
- de la gestion basée sur les ordonnancements, pour les crédits d'ordonnancement.

Le crédit d'engagement permet d'engager pendant l'année des dépenses qui ne seront payées qu'au cours des années à venir. Pratiquement, le Parlement est obligé de voter les crédits d'ordonnancement correspondants. Il s'agit, en fait, d'une dérogation à la règle de l'annalité.

6. Budgétisation des opérations en capital

6.1

Le principe de l'unité budgétaire impose qu'il n'y ait qu'un unique Budget Général des Dépenses : les dépenses en capital et les dépenses de fonctionnement figurent donc dans un seul et même budget. Ainsi, toutes les allocations de base, quelle que soit leur nature, sont exclusivement "intégrées" dans le budget en fonction du programme auquel elles se rattachent.

Si l'on veut "isoler" les dépenses de capital, on est donc obligé de recourir à la classification économique des opérations de dépenses des Pouvoirs publics : le premier chiffre du code économique permet, en fait, de distinguer les opérations courantes (codes 1 à 4) et les opérations de capital (codes 5 à 9).

Par ailleurs, en application de l'article 14 des lois coordonnées sur la comptabilité de l'Etat du 17 juillet 1991, "*les crédits afférents aux programmes sont ventilés en allocations de base conformément à la classification économique...*" ; ceci a pour effet de pouvoir également "isoler" les opérations d'investissement en fonction du premier chiffre du numéro de l'allocation de base.

Le principe de l'unité budgétaire impose également qu'il n'y ait qu'un unique Budget Général des Voies et Moyens : les recettes en capital et les recettes courantes figurent donc dans un seul et même budget. Les principes de classification décrits ci-avant en matière de dépenses sont également valables pour ce qui est des recettes. Cependant, il faut signaler², qu'il existe, en outre, une particularité spécifique des recettes ; ainsi le Budget des Voies et Moyens est divisé selon une structure permettant immédiatement la perception de la nature d'un article de recette donné : le titre I ne contient que des recettes courantes, le titre II ne contient que des recettes de capital tandis que le titre III traite des produits d'emprunts.

6.2

Oui.

Jusqu'au début des années 70, existait un "budget double" : l'un appelé budget *ordinaire* reprenait les opérations courantes tandis que l'autre dénommé budget *extraordinaire* comprenait les investissements

A partir de 1974, Budget 1975, le Gouvernement a dit son intention d'instaurer le budget unique.

Cette réforme avait pour but de rationaliser les travaux d'élaboration et d'exécution du budget afin de permettre une meilleure vue d'ensemble et un meilleur contrôle sur les dépenses publiques.

Par ailleurs, il y a lieu de préciser ici que l'ensemble de la comptabilité publique belge est actuellement en voie de complète réforme : il s'agit de rapprocher les principes de la comptabilité publique avec ceux de la comptabilité privée en partie double de telle sorte qu'il y ait totale compatibilité entre elles.

6.7

Ce point a déjà été abordé précédemment dans le développement de la réponse à la question 6.1 : au niveau strictement budgétaire, il n'y a aucun traitement spécifique des dépenses de capital.

6.8

L'exposé général du budget contient une section consacrée aux investissements publics. Y est effectivement inséré un tableau récapitulatif des investissements prévus pour l'année budgétaire considérée.

6.9

Au niveau des documents budgétaires, il n'existe pas de programmes d'investissement qui pourrait servir de référence dans le cadre de la procédure budgétaire annuelle.

6.10

Contrairement aux dépenses courantes, les dépenses de capital peuvent être financées par voie de leasing. Elles pourraient également l'être sous forme d'emprunt mais ce dernier mode de financement n'est plus utilisé car il nécessitait le passage par la technique du "préfinancement" et par voie de conséquence, par des débudgétisations... proscrites par souci de transparence budgétaire.

Pour le surplus, il n'y a pas de mode spécifique de financement des dépenses de capital et, notamment, il y a lieu de respecter le principe de la non-affectation des recettes. En effet, les règles qui président à ce principe ne sont pas différentes selon la nature de la dépense envisagée : dépense courante ou de capital.

Ce principe signifie que toutes les recettes doivent figurer au Budget des Voies et Moyens et aucune recette ne peut être affectée à une dépense particulière.

Il existe cependant certains tempéraments et dérogations à ce principe de la non-affectation des recettes. En effet, certaines recettes sont affectées directement à des dépenses précises, par imputation au Budget des Voies et Moyens ; c'est le cas, notamment, des "fonds organiques": les crédits de ces fonds en fonction des recettes imputées au poste correspondant du Budget des Voies et Moyens (mison pour laquelle on les appelle "crédits variables"), augmentées du disponible reporté de l'année précédente (art. 45 des lois coordonnées sur la comptabilité de l'Etat du 17 juillet 1991).

6.11

Il existe essentiellement deux modes de financement des investissements : l'investissement financé par un crédit budgétaire et le leasing financier.

L'INVESTISSEMENT FINANCÉ PAR UN CRÉDIT BUDGÉTAIRE

L'investissement est traité de la manière suivante : au niveau du budget départemental, est inscrit sous un code d'investissement une dépense pour un montant équivalent au prix total de cet investissement (dépense de capital).

Etant donné que cet investissement a, comme les autres dépenses, une influence sur le solde net à financer, celui-ci va devoir faire l'objet d'un emprunt (cfr. Budget des Voies et Moyens -Titre III (cfr. réponse 6.1)).

On retrouvera au budget de la Dette, annuellement, l'amortissement de cet emprunt (dépenses de capital) ainsi que les intérêts y afférents (dépenses courantes).

LE LEASING FINANCIER (crédit-bail)

Dans le cas du crédit-bail, le preneur acquiert le droit d'utiliser un bien durable pendant une période déterminée en échange du paiement de loyers. Au terme de la période de location, le preneur dispose souvent d'une option d'achat du bien.

Généralement, le bien est choisi par le preneur et lui est fourni directement par le producteur ou le vendeur. Le rôle du bailleur est donc de nature purement financière.

A partir du budget de 1999, conformément aux directives relatives à l'application de la classification économique des dépenses et des recettes des Administrations publiques (SEC 95), il faut considérer que le bailleur octroie un prêt au preneur qui permet à celui-ci d'acheter un bien durable et d'en devenir propriétaire dès le début de la période de location.

Lors de la conclusion du contrat de leasing financier, on considère donc que l'Etat contracte un emprunt en échange de l'acquisition du bien. Cette acquisition fait l'objet d'une imputation en dépenses sous le code "7" correspondant (code économique correspondant à un investissement) et au Budget des Voies et Moyens sous le code 96.70 (code économique correspondant à un produit d'emprunt en matière de leasing financier).

Chaque annuité de leasing comportera alors une partie charges d'intérêts (code économique 21.5) et une partie charges d'amortissements (code économique 91.7).

6.12

Ce point a déjà été abordé précédemment dans le développement de la réponse à la question 2.8.

BRAZIL

1. Fiscal Performance

1.1. The overall fiscal position, as measured by the public sector borrowing requirement, closed at 5.9 per cent of GDP, essentially unchanged in 1997 related with 1996. The primary deficit, however, increased from 0.1 per cent of GDP in 1996 to 0.7 per cent of GDP in 1997. This result reflects mainly the commitments for social security and increased spending on the part of states governments financed by large privatization receipts. By the end of October 1997, with the turmoil in the financial markets in Asia, the Brazilian authorities reacted by doubling central bank intervention interest rate and announced the adoption of a fiscal package equivalent to about 2.5 per cent of GDP. The measures announced at that time will have impact on various items of revenues and expenditures in 1998. The implementation of fiscal measures, together with the use of most of privatization receipts for debt reduction, would facilitate a decline in the overall public sector deficit and debt. Other important measures were the debt restructuring of states, accompanied by a strong fiscal adjustment program. The perspective of continuity in government's account initiated in 1997 allows waiting better fiscal results for 1998.

2. Role of the Legislature

2.1. Yes. The Congress can modify the budget proposal, but have to observe the following:

- a) Multiyear Plan -- establishes goals and objectives for the public federal administration regarding capital expenditures and continuing duration programs for four years, beginning at the 2nd year term;
- b) Budget Guidelines Law -- sets parameters, annual goals and priorities for the public federal administration, including capital expenditures for the next year; it also regulates tax legislation changes and establishes the application programs and policies to be followed by development banks and agencies;
- c) The Congress cannot modify the items of payroll expenditures, debt service, and constitutional transfers. Also, it cannot increase the total level of spending, only its composition.

2.2. a) No. Usually, the Congress modifies the budget proposal.

b) Amendments to the budget:

government members

number: 7132
approved: 7115
amount: 695.158.500,00

opposition members

number: 1418
 approved: 1417
 amount: 171.142.80,00

c) No substantial changes.

d) Absolutely. Ten years ago the Congress had a small role in this area. The benchmark was the 1988 Constitution. After this date, all subjects related to tax system, debt, national development programs, exchange policy, and financial policy between others should be discussed and approved by the Congress.

2.3. One budget bill covers the government as a whole. Meanwhile, it is worth mentioning that the bill is divided into three main parts: Fiscal, Social Security (Health, Social Assistance and Social Security), and State-owned enterprise investments.

2.4. a), b) The first step in considering the budget bill is to submit it to the Permanent Joint Commission of Senators and Deputies to be analyzed. The Commission's rapporteur defines the basic lines to guide more detailed analysis. After that, the Commission votes the report. If approved, the bill goes to specific committees (education, health, economy, etc.) to have programs, projects and activities analyzed. If approved, it is voted for the Congress in the plenary session.

c) Yes, ministers and heads of agencies can go to the Congress to explain the budget proposal, usually when they are invited.

2.5. Resources for reviewing budget: staff personnel, data processing equipment (PRODASEN), the Permanent Joint Commission.

2.6. In Brazil's case, there are "floors", not ceilings. One example: the earmarked revenue establishes the minimum to be spent in each item. The Congress can raise the amount, but can't reduce it. The exceptions are the limitations mentioned under 2.1.b) above.

2.7. a) The budget bill is sent to the Congress with a chart showing the regional effects on revenues and expenditures, brought about by exemptions, subsidies and other fiscal benefits.

b) That information is used by specific committees to subsidize studies in order to elaborate expert opinion about national and regional plans and programs, and to do the budgetary inspection. Besides, the results of the budget related to its function of minimizing inter-regional inequalities according to population criteria should be followed.

2.9. Yes.

3. Fiscal Relations with Lower Level of Government

3.1. No. They are independent.

3.2. There are restrictions on borrowing foreign loans when they need national government guarantee. To have the Treasury guarantee, sub-national government has to prove its capacity to pay. The Treasury Secretariat analyses the state accounts.

3.3. a) Yes. If they have financial problems, the national government helps them through refinancing their debt, and sometimes providing urgent financial aid to solve short-term cash difficulties.

b) A recent example of this role is the last “State Restructuring Program”. Through this program, the national government provides conditions to solve the state’s financial problem by refinancing debt payment, providing money to face urgent financial problems. To enter this program, states should follow some rules defined by the national government, such as maintain operational expenditures at a determined level, no issuance of state bonds, to reduce fiscal deficit, and others.

4. Managerial Flexibility

4.1. a) Functions, programs, projects, activities, sub-projects, and sub-activities.

b) The budget appropriation is approved by levels of activities.

c) Yes. All appropriations are done by items of spending, such as salaries, office accommodation, travel expenses, and others.

4.2. a) Yes, inside the same program and between programs. The boundary is 10 per cent of the total of each sub-activity or sub-project.

b) Re-allocation of resources is prohibited if they come from transfers program to cover administrative costs.

4.3. Yes, since the legislation for contracting is being obeyed.

4.4. No. Resources cannot be carried over for the following period.

4.5. Formally, no. However, if managers spend money (buying things or contracting services) and the revenue is smaller than anticipated, there is a place in the budget entitled “expenditures from previous year” which can be analyzed as a kind of borrowing against future appropriations.

4.6. a) Yes. The Ministry of Administration and Reform of the State defines, based on the demands of the other ministries, how many public servants can compose each career in the central government.

b) Public servants have to take public examinations but there are some capacities -- DAS -- that can be used to contract personnel without restrictions.

c) For some categories of staff, like the National Treasury, the managers decide about wages through special rules that give them some flexibility. Targets are defined for a year, and reviewed each period of four months. Based on the results, the managers define the value of GDP-“Productivity Reward” to be applicable to each area and servant. The GDP is the main parcel of the salary.

5. Accrual Accounting and Budgeting

5.1. a) The base is cash for revenues and accrual for expenditures. Enterprises use cash for both revenues and expenditures.

5.2. No. The government has followed Law No. 4320 for the last 30 years.

6. Capital Budgeting

- 6.1. Operational and capital appropriations are divided, but consolidated in a single budget. The exception is the state-owned enterprises that have only an investment budget.
- 6.2. No. For the last 30 years the budget preparation has followed Law No. 4320. The major change in this area occurred with the introduction of SIAFI -- a modern system to administer public finance which has a specific chart of accounts, but without changes in main classification.
- 6.7. Yes, capital expenditures are a separate category within the budget, and are divided into ministries and agencies. They are also broken down by type of expenditure.
- 6.8. Yes.
- 6.9. Yes. The Multiyear Plan is a long-term investment budget.
- 6.10. No. Revenues coming from taxes cannot be earmarked.
- 6.11. No.
- 6.12. Funds are provided yearly, even in cont

CANADA

1. Fiscal Performance

1.1 *Please outline the government's fiscal performance in the last fiscal year and the outlook for the current fiscal year, in nominal terms and as a percentage of GDP?*

1.2 *Please outline the government's medium-term fiscal policy objectives, in nominal terms and as a percentage of GDP?*

See attached Table 1.1 from the 1998 Budget Plan, tabled in the House of Commons on February 24, 1998 by the Minister of Finance.

2. Role of the Legislature

2.1 *Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?*

In theory there are no restrictions on the ability of the legislature to modify the budget. In practice, in the Canadian Parliamentary system, it is extremely difficult to introduce changes to budget measures, once they have been formally introduced in Parliament. Defeat of a budget bill in the House of Commons traditionally implies the defeat of the budget and the government and a general election must be called. The budget consultation process begins well in advance of the tabling of the budget to allow Parliamentarians and the public to have meaningful input into budget deliberations (see 2.4 below).

2.2 *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years. Does the legislature take a more active role in the budget process now than it did 10 years ago? If so, why?*

Parliament typically enacts the budget as proposed by the government. Amendments by opposition members may be made where the government accepts the amendment, but in no case would these amendments affect the basic principles of the bill or its fiscal implications. In the past three years, very few, if any, amendments have been made by the government or the opposition (not considering the amendments made to details or for drafting purposes).

Parliament takes a more active role in the process leading up to the budget now than it did 10 years ago. In the post-budget process, the role of Parliament has not changed. The recent adoption of a fall economic and fiscal statement has been a key component to opening up the Budget process. This statement sets the overall fiscal framework to help focus pre-budget consultations (see also section 2.4 on the budget process). The federal budget has evolved into a major statement of government policies. The current

nature of the budget is in sharp contrast to its original form that was primarily concerned only with revenue-raising actions.

2.3 Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?

Parliamentary tradition requires that a budget contain:

- the complete revenue plan including changes in tax acts – ways and means;
- the fiscal framework – that is, a statement showing how the revenue and expenditure plans of the government fit together to produce the budgetary deficit and financial requirements;
- a description of the economic environment within which the fiscal framework has been designed to operate; and,
- a rationalisation of discretionary fiscal actions (expenditure and revenue).

Under current arrangements, the borrowing bill is tabled with the Budget as it would be inappropriate to seek borrowing authority without first providing all the relevant details relating to the financial requirements to Parliament.

The Main Estimates are also related integrally to the Budget, as the details of expenditures for which parliamentary approval is required are contained in the Estimates. The Main Estimates are presented in three parts:

- Part I sets out the budgetary expenditure portion of the fiscal plan including reserves and lapses. It provides the link between the Budget and Part II of the Estimates.
- Part II sets out the departmental expenditures on a vote-by-vote basis. This, in fact, translates into the Appropriations Act. Part II also contains, for information purposes only, an estimate of the cost of statutory programs for which spending authority has been granted through existing legislation. In accordance with its statutory responsibility for accounting for expenditures, including the preparation of the Main Estimates, the President of the Treasury Board tables the Main Estimates and one appropriation bill for the government.
- Reports on Plans and Priorities (formerly Part III of the Estimates) described in section 2.7.

2.4 What are the key steps taken by the legislature in considering the budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable? Do heads of government ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?

The formal budget process begins in the early fall. In early October, the Minister of Finance presents an Economic and Fiscal Update to the House of Commons Standing Committee on Finance (which acts as the co-ordinating body for Parliamentary analysis of budget matters). This budget consultation report provides fiscal and economic updates based on current policy. It also outlines both the broad, longer-term policy goals as well as more immediate issues and options – with associated budgetary implications – for the budget planning horizon.

The Finance Committee uses this report as a basis for conducting its public hearings in this regard. Other parliamentary committees are also involved to identify policy priorities and review proposed policy initiatives in their particular areas of concern. Recent examples of such ad hoc committees include the Program Review Committee and the Expenditure Control Committee. These consultations form the basis of a report the committee presents on budget recommendations to the Finance Minister by the end of November or early December. This report (as well as those prepared by any other parliamentary committee, as appropriate) is taken into account by the Finance Minister and Cabinet in developing the upcoming budget.

The objectives of the Improved Reporting to Parliament Project which started in 1995, are: to improve the expenditure management documents supplied to Parliament; and to produce and distribute departmental planning and performance information to Parliament and the Canadian public more efficiently and economically, using information technology. Departments and agencies now submit Reports on Plans and Priorities in the spring (formerly Part III of the Estimates) and Performance Reports to Parliament in the fall. Parliamentary committees can review these reports and provide their own input to Budget decisions.

In March 1996, the President of the Treasury Board tabled revised Part III documents for six pilot departments along with the 1996-97 Main Estimates. In June 1996, the House of Commons unanimously adopted a report recommending that the effort to improve expenditure management information be continued, and that Departmental Performance Reports be tabled on a pilot basis in October 1996. An evaluation of the pilot documents indicated broad support for replacing the Part III publications with separate planning and performance reports, to be tabled at different times in the year. Fall 1997 was the first time that all departments and agencies tabled performance reports.

The process by which Parliament deals with estimates and approves appropriations is called the "business of supply". The Standing Orders of the House of Commons provide for three supply periods ending in December, June and March. Estimates, when tabled in the House of Commons, are referred to Standing Committees (sectoral committees) for review and report back to the House. According to the House rules, the Committees must either report back or are deemed to have reported back at the last day of the Supply period and the Estimates are disposed of (it is essentially a guillotine process).

Cabinet Ministers, deputy heads of government ministries and agencies as well as other senior officials typically testify at committee meetings. Committee meetings are typically open to the public.

2.5 *What resources (e.g., staff) are available to the legislature for reviewing the budget?*

Members of Parliament have their own staff, albeit limited, to undertake such research. Their staff will contact departments for fact-finding purposes. Standing Committees have use of researchers from the Library of Parliament.

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditures items? If so, please describe.*

No.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes? How is this information used by the legislature?*

Reports on Plans and Priorities (RPP) are tabled in Parliament by the President of the Treasury Board on behalf of the ministers who preside over the departments and agencies. These RPPs contain information

on objectives, initiatives and planned results including linkages to related resource requirements as well as objects of expenditure, human resource requirements, major capital projects, grants and contributions, and net program costs.

The President of the Treasury Board also tables a performance report for each department in the fall. Performance Reports provide information on results actually obtained in serving Canadians, and on the cost of serving them. These reports present information on past performance. They will help parliamentarians assess departmental plans and priorities for upcoming fiscal years. Providing separate reports on performance increases the visibility of this information, encourages reporting of results, and improves accountability. This kind of information is particularly valuable in a results-oriented management environment - for making decisions, improving services to clients, and ensuring that the right kinds of programs are being delivered.

Crown corporations report publicly in annual reports that are tabled in the House of Commons. The committees of the House of Commons and the Senate review these reports along with other government policy and legislative proposals, spending requests and accountability documents. The committee then reports to the government and may recommend changes to plans and priorities.

2.8 *What share of total budget appropriations is annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programs)?*

Less than 30 per cent of federal government spending is voted annually. The following information is from the Main Estimates (\$billions):

Total spending – Main Estimates 1998-99	\$145.5
Less:	
Public Debt Charges	<u>-43.5</u>
Program spending	102.0
Less:	
Statutory spending under previous authorities	<u>-59.6</u>
Voted appropriations	\$42.4

2.9 *Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have there been in each of the past three years?*

The President of the Treasury Board tables Supplementary Estimates in the late fall and spring to obtain the authority of Parliament to authorise the balance of spending initiatives in the government's expenditure plan, as incorporated in the Budget for that fiscal year. Treasury Board authority must first be obtained by departments and agencies in order to include an item in Supplementary Estimates. The Supplementary Estimates also provide Parliament with information on changes in the estimated expenditures to be made under the authority of statutes previously passed by Parliament.

While there is no limit as to the number of Supplementary Estimates in a given fiscal year, in each of the past three years there have been two sets.

3. Fiscal Relations with Lower Levels of Government

3.1 Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?

In the lead-up to the federal budget, the federal and provincial finance ministers meet (usually in October-November). The Fall Economic and Fiscal Update is used as the context for consultations on the upcoming federal and provincial budgets. Finance Ministers' meetings are called by the federal Minister and help co-ordinate fiscal policy.

The Continuing Committee of Officials (federal/provincial Deputy Ministers of Finance) generally meets before federal/provincial Finance Ministers to assist them. There are also other committees such as the Federal/Provincial Taxation Committee and the Fiscal Arrangements' Committee.

3.2 Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?

No.

3.3 Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?

No, but lower levels of government are somewhat restrained in their borrowing by virtue of not being sovereign governments.

3.4 If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.

No, but the need has not arisen.

4. Managerial Flexibility

4.1 How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?

In the Schedule to the 1998-99 Appropriation Bill, there were 187 different appropriations or votes. In general, there is usually only one Vote for each program. When capital expenditures or total grants and contributions expenditures of a program reach \$5 million, there is a requirement for separate votes. Non-budgetary Votes are used for such items as loans or advances to and investments in, Crown Corporations; loans or advances for specific purposes to other government international organisations or persons or corporations in the private sector. The wording of a Vote and its amount are included in the Appropriation Act that provides the authority and the limit for payments to be charged against the Vote.

The Main Estimates also lists, for information purposes for each department and agency, the budgetary spending by standard object of expenditure which includes: personnel; transportation and communication; information; professional and special services, rentals; purchased repair and maintenance; utilities; materials and supplies; construction and /or acquisition of land, buildings and works; construction and/or

acquisition of machinery and equipment; transfer payments; public debt charges; other subsidies and payments; revenues credited to the vote.

5.1 Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?

Parliament requires that departments and agencies establish a separate vote when their major capital or grants and contributions exceed \$5 million. If a department's major capital budget is below that threshold, the Treasury Board will establish a separate control over that portion of the budget. In either case funds cannot be moved into or out of the capital without the appropriate authority.

Funding can be moved between votes within a program or between programs with the approval of Parliament. This would be effected through the inclusion of an item in Supplementary Estimates (see section 2.9 on Supplementary Estimates) for Parliamentary approval.

There are no specific prohibitions against reallocating from transfer payment programs to cover administrative costs. If this requires a movement of funding between votes, it will require the approval of the Treasury Board and Parliament. It should be noted that in recent years, the transfers generally seem to be from program votes to transfer payment votes. This, in part, reflects the devolution of programming from the federal government to other levels of government and aboriginal groups.

5.2 Can managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?

Yes, contracting out is one option in the wide range of alternative program delivery options available as part of the government's strategy for "getting government right". The Treasury Board Secretariat has issued a document entitled "Framework for Alternative Program Delivery". This framework provides departments with strategies, principles and criteria to promote client-oriented, affordable and innovative government services. Departments and agencies are encouraged to use this framework as they redesign program delivery so they can carry out their mandates within the current reduced level of resources available. The framework sets out the principles and assessment criteria the government will use in selecting the best ways to deliver programs. Departments should seek Treasury Board and/or Cabinet direction before implementing a change in the means of program delivery, as determined through consultation with central agencies.

5.3 If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?

Operating budgets were introduced government wide with the 1993-94 fiscal year (following a series of pilot projects in the two previous fiscal years). The operating budget regime was initially established with a two per cent carry forward (carry-over) provision. In the 1994 Budget, the limit on the operating budget carry forward was increased to 5 per cent. The carry forward is managed by the Treasury Board Secretariat. The amount being carried forward from the previous year is approved by Parliament through Supplementary Estimates.

In the case of capital funding, departments may carry forward up to 5 per cent or \$75 million. By mid-December, departments must write to the Secretary of the Treasury Board and demonstrate the need to carry the funds forward (generally project/contract specific justification). Upon approval, the department

is notified that the funding will be included in the following year's Estimates and separate controls are placed on the current year funds (frozen allotments), so that the funds are no longer available to the department.

There is no formal policy on the carry forward of transfer payment budgets, although, in practice departments can seek approval to carry funding forward. The requirement generally occurs because of program slippage, for example getting agreement on terms and conditions for a program; or establishing recipient eligibility.

The purpose of the carry over provisions is to facilitate good cash management practices across the fiscal years and, in this context, to accommodate unforeseen delays in project or program implementation:

Parliament has recently approved an amendment to our Financial Administration Act which would permit unspent funds approved for a given fiscal year to be carried over into the next fiscal year. This is an enabling provision and the specific authority must be obtained either through a separate piece of legislation or through a specific appropriation act (spending vote). There are no precedents, although there is draft legislation before Parliament to establish a new agency that would provide that agency with this carry over authority.

5.4 Are there any arrangements in place where managers may borrow against future appropriations. If so, please describe applicable maximums and other conditions.

Administrative arrangements are available where departments and agencies may borrow against future appropriations. This are dealt with on a case by case basis and is subject to availability of funds from the Operating Reserve which is managed by the Treasury Board Secretariat. Interest is generally charged on outstanding funds at the Crown Corporation borrowing rate.

5.5 Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? What flexibility do managers have in setting the wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.

The Treasury Board no longer controls the number of staff employed in government organisations. Full-time equivalents (FTEs) are reported, for information purposes, in departments' Reports on Plans and Priorities and Performance Reports. Treasury Board did control the Target Executive Count (TEC) until the fall 1997. Departments are controlled by the amount of funds that are available in the salary and wages allotments. When departments move funds from their non-salary operating budget to their salary-and-wage budget they must give up an amount equal to 20 per cent of the amount transferred to cover the costs of employee benefits associated with salaries and wages. When funds are moved the other way, they will receive a credit.

Appointment to the Public Service of Canada as well as promotions and deployments between positions are governed by the Public Service Employment Act (PSEA). Under this legislation, deputy heads have full authority to deploy employees between equivalent level positions. Initial appointments as well as promotions within the Public Service are the responsibility of the Public Service Commission whose role it is to ensure merit in appointments. In practice, most appointment authority has been delegated by the Commission to deputy heads within a framework designed to ensure meritorious appointments.

During the period of Program Review, a restriction was placed on management authority with regards to external recruitment. Because of the significant work force reductions that the Public Service was undergoing, deputy heads were asked to personally approve any external recruitment.

The Treasury Board has delegated its authority and responsibilities in relation to personnel management (subsection 11 (2) of the Financial Administration Act) to Deputy Heads of departments and agencies, who have in turn, delegated these authorities and responsibilities to line management. This delegation includes the authority to prescribe financial and other penalties (including termination of employment and suspension) for breaches of discipline or misconduct. It further includes delegation to terminate employment for reasons other than discipline or misconduct (generally termination for reasons of incompetence or incapacity).

For the majority of public servants, wages and working conditions are determined by the collective bargaining process. For non-unionised employees, terms and conditions of employment are established centrally. Managers have delegated authority to apply the provisions of collective agreements (e.g., sick leave, annual leave, overtime, family responsibility leave) that apply to employees covered by those collective agreements. For non-unionised employees, managers have delegated authority to apply the provisions of the compensation plan applicable to those employees covered by the particular plan.

At present, there are some 72 collective agreements and 12 compensation plans covering employees for whom the Treasury Board is identified as employer. Collective agreement and compensation plans contain specific wages and terms and conditions of employment applicable to the particular bargaining unit or non-unionized group of employees.

There is limited flexibility available to managers to determine salary above the minimum established by the collective agreement or compensation plan on initial hiring. There are specific regulations that govern the salary on appointment to the Public Service as well as salary determination on promotion or appointment to a lower level position.

5. Accrual Accounting and Budgeting

5.6 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual basis. Do some types of government organisations (e.g., agencies, enterprises) use accrual-basis whereas others do not? If so, please describe. Are certain transactions (e.g., interest on government debt, civil service pension plans) treated on accrual-basis whereas other transactions are not? If so, please describe.

The government currently follows a “modified accrual” basis of accounting. By 1995, the government was following accrual accounting for most of its affairs except physical assets that continue to be charged to the deficit when acquired and tax revenues which were reported when taxes were collected and refunds disbursed. The modified accrual basis as practised by the government includes accruing interest on government debt, recognising Public Service pension liabilities on an actuarial basis, valuing monetary assets at the lower of cost or expected realisable value, and establishing provisions for loan guarantees and other contingencies. Transfer payments are also accrued where the recipient has met eligibility criteria to receive payment. Crown Corporations use full accrual accounting (including capitalisation and depreciation of capital assets) as do revolving funds operated by departments or agencies

5.7 Has the government's basis of accounting moved from cash-basis to accrual-basis in the recent past? If so, please describe. Does the government have plans to move to accrual-basis in the near future? If so, please describe.

Until the late 1970s, the government used cash accounting as the basis for parliamentary control and financial reporting. The government moved slowly towards a "modified accrual" basis of accounting starting in the early 1980s. Through the Minister of Finance in his 1995 Budget, the government announced that it intends to adopt full accrual accounting including the capitalisation and depreciation of physical assets, and recording liabilities related to environmental obligations. The target date for reporting on a full accrual basis is fiscal year 2001-2002. It should be noted that government capital spending runs between two and three per cent of total spending.

If the government uses or plans to use accrual-basis, please answer questions 5.3 – 5.7 accordingly. Otherwise, please go to question 6.

5.8 Are consolidated whole-of-government financial statements prepared on accrual-basis? Or are only departmental or agency-level financial statements prepared on accrual-basis? If so, why?

Consolidated whole-of-government financial statements are currently prepared on the modified accrual basis and will be prepared on a full accrual basis in fiscal 2001-2002. The Treasury Board Secretariat has prepared an illustrative full accrual financial statement for the 1995-96 fiscal year using estimates for capital assets and drawing upon tax revenue information prepared by Revenue Canada. Crown Corporations and revolving funds prepare financial statements on a full accrual basis.

Currently, departmental financial statements are not formally prepared. However, it is the intention of the government to have departmental statements on a full accrual basis prepared by fiscal 2001-2002 and presented to Parliament in a departmental annual performance report. These departmental financial statements will be audited.

5.9 What is the frequency of financial reporting on accrual-basis? Is there more frequent reporting on cash-basis? Which of these reports is independently audited?

Currently, an extensive accrual exercise is undertaken only annually. However, a number of adjustments are made monthly in preparing the government's monthly statements to reflect large known accrual adjustments. Only the annual government-wide financial statements are audited.

5.10 How are "heritage assets," such as museums and national parks, treated for reporting purposes?

As a general rule, capital assets will be valued at historical cost. This is the generally accepted accounting principle in both the private and public sectors in Canada. As such, museums and national parks will be recorded at cost. However, monuments and museum collections will be expensed upon acquisition. It should be noted that most land in national parks was originally Crown property acquired by historic claim, and therefore has no cost. Military assets will be capitalised and depreciated.

5.11 How are government accounting principles, standards and definitions determined? Does the government establish these unilaterally or does it rely on private sector accounting policy boards?

Because the Government of Canada is sovereign, it establishes its own accounting principles. However, in practice, the government follows the recommendations of the Public Sector Accounting and Auditing

Board (PSAAB) of the Canadian Institute of Chartered Accountants, a non-governmental body that recommends accounting policies for the three levels of government in Canada. The Auditor General of Canada provides an opinion on the government's financial statements based on the accounting principles recommended by PSAAB.

5.12 Is the budget presented to the legislature on accrual-basis or cash-basis, or both. Does the legislature approve the budget on accrual terms or cash terms, or both. If applicable, is there a reconciliation between the different basis of accounting used in the budget and the financial statements?

The government-wide budget presented to Parliament by the Minister of Finance uses the modified accrual basis. The budget per se is not approved by Parliament. Rather, Parliament approves specific appropriations for departmental programs. These appropriations can best be described as being on an expenditure or modified cash basis. This means that the appropriations only include expenses that will eventually be paid out in the form of cash (no provisions for bad debts, depreciation, etc.) and the costs of goods and services acquired during the fiscal year, even if payment is made in a subsequent fiscal year (accounts payable as at year-end). A reconciliation of total appropriations to total planned expenditures is provided with the annual Estimates.

The move to accrual accounting presents some very difficult issues in relation to how Parliament should review and approve departmental expenses. It is currently expected that while managers may have accrual-based budgets covering all expenses, parliamentary appropriations will continue to be expenditure-based. Reconciliations between departmental expenses incurred and parliamentary appropriations used will form part of annual financial reporting.

6. Capital Budgeting

6.1 Are appropriations divided between separate capital and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?

When capital expenditures equal or exceed \$5 million in a program, there must be a separate capital vote (see section 4.1 re appropriations). This is a consideration in parliamentary control. Capital expenditures are part of total budgetary expenditures for the purpose of determining the government's net deficit or surplus position.

6.2 Has there been a change from having a capital budget to not having a capital budget, or vice versa, within the last 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?

No. There has been no change within the last 30 years. In the context of parliamentary control, there has been some consideration of the benefits (administrative and management flexibility) and costs (accountability and parliamentary control of spending) of a one-vote-per-program regime. This will be considered along with other expenditure management system improvements under the Improved Reporting to Parliament Project.

If the government has a separate capital budget, please answer questions 6.3 – 6.6 accordingly. Otherwise, please go directly to question 6.7.

6.3 What is the definition of capital used to determine which expenditures are included in the capital budget? Does "capital" include all types of physical capital purchased by the government (e.g.,

infrastructure, buildings, motor vehicles, military weapons systems)? Does it include transfers to lower levels of government to acquire capital? Does it include expenditures for non-physical capital (e.g., research and development, education, training)? Who determines the definition of capital and how?

6.4 *Does the operating budget include any charges for the use of capital (e.g., depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

6.5 *Are the capital and operating budgets financed differently? If so, how?*

6.6 *Does the legislature provide funds up-front in the budget for the full costs of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

Please answer questions 6.7 – 6.12 if capital and operating expenditures are contained in a single consolidated budget.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they treated otherwise? Does this differ by type of capital expenditure (e.g., purchase of capital used by the government, grants to lower levels of government, physical and non-physical capital)?*

While the Budget Plan does not differentiate between operating and capital spending, appropriations do (see section 4.1 re appropriations). When the government moves to full accrual accounting, the definition of capital assets as described in Appendix A attached will be used. The threshold value will be \$10,000 or less should a department choose to use a lower amount on a consistent basis from year-to-year (also see section 4.1 re capital appropriations).

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

The Budget Plan does not contain a separate section on capital expenditures but the Main Estimates documents do (see section 2.3 on appropriations and section 2.7 on Reports on Plans and Priorities).

6.9 *Are there any separate (long-term) plans for capital expenditures (e.g., infrastructure development) that are used for reference in the annual budget process? Please give examples.*

The Reports on Plans and Priorities contain information on capital expenditures for each department. If a capital program was considered a priority of the government it could be given profile in the Budget Plan. For example, in the 1994 Budget Plan the Canada Infrastructure Works Program was identified as a specific capital investment priority of the government. This infrastructure program was a shared cost program between the federal, provincial and local governments.

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g., by special earmarked taxes)? Please give examples.*

No, but there are some organisations, particularly revolving funds (e.g., the Passport Office), where the operating and capital expenditures are financed entirely by the fees that the organisation collects.

6.11 Does the operating budget include any charges for the use of capital (e.g., depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?

No.

6.12 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

Currently, funding is provided on an annual basis, even for multi-year projects. No change is envisioned under full accrual accounting. Appropriations will continue to be expenditure based. Reconciliations between departmental expenses incurred and parliamentary appropriations used will form part of annual financial reporting.

Appendix A

Definitions

1. *Capital Assets*

- (a) A Capital Asset is a tangible or intangible asset that is purchased , constructed, developed or otherwise acquired and:
- is held for use in the production or supply of goods, delivery of services or program outputs;
 - has a useful life extending beyond one fiscal year and is intended to be used on a continuing basis; and
 - is not intended for resale in the ordinary course of operations.
- (b) For the government, capital assets have the following characteristics:
- beneficial ownership and control would clearly rest with the government;
 - the asset is used to achieve government objectives; and
 - risks and benefits of ownership clearly rest with the government (as is the case of capital leases).
- (c) For government accounting purposes capital assets generally include all assets treated as capital assets under Public Sector Accounting and Auditing Board recommendations and generally accepted accounting principles in Canada. However, for further clarification, capital assets:
- also include land, military assets, infrastructure assets, purchased computer software; assets acquired under capital leases; or assets that have been donated; in-house developed intangibles such as software, copyrights, trademarks, patents; and
 - do not include capital and other transfers for which no goods or services are received directly in return; works of art and historical treasures that have cultural, aesthetic or historical value; assets located on Indian reserves; museum collections and obsolete and surplus items;

2. *Repairs and maintenance*

Repairs and maintenance are costs incurred to maintain the service potential of an asset and should not be capitalized.

3. *Betterments*

Betterments are costs incurred to improve the service potential of a capital asset and should therefore be capitalized if the total costs exceed the established threshold limit. For example, the service potential

may be enhanced when there is an increase in physical output or service capacity, operating costs are lowered, the useful life is extended, or the quality of output is improved.

4. *Spare parts*

Spare parts acquired as part of the same procurement as the original capital asset which, due to their unique nature, are considered integral to the acquisition of the asset and form part of the total cost of the capital asset.

5. *Goods and Services Tax (GST)*

The Goods and Services Tax (GST) shall not be capitalized.

6. *Bulk purchases of small items*

Bulk purchases of small dollar items such as signs, tools, furniture, software, etc. are only considered a capital expenditure if the cost of each individual unit is equal to or greater than the threshold value.

Table 1.1

Summary Statement of Transactions: fiscal outlook with budget measures

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00
	(billions of dollars)						
Budgetary revenues	116.0	123.3	130.3	140.9	147.5	151.0	155.0
Program spending	120.0	118.7	112.0	104.8	106.0	104.5	107.0
Operating balance	-4.0	4.6	18.3	36.1	41.5	46.5	48.0
Public debt charges	38.0	42.0	46.9	45.0	41.5	43.5	45.0
Underlying balance	-42.0	-37.5	-28.6	-8.9	0.0	3.0	3.0
Contingency Reserve						3.0	3.0
Budgetary balance	-42.0	-37.5	-28.6	-8.9	0.0	0.0	0.0
Net public debt	508.2	545.7	574.3	583.2	583.2	583.2	583.2
Non-budgetary transactions	12.2	11.6	11.4	10.2	12.0	6.0	9.0
Financial requirements/ surplus (excluding foreign exchange transactions)	-29.8	-25.8	-17.2	1.3	12.0	6.0	9.0
Per cent of GDP							
Budgetary revenues	16.0	16.2	16.3	17.2	17.2	16.9	16.7
Program spending	16.6	15.6	14.0	12.8	12.4	11.7	11.5
Operating balance	-0.6	0.6	2.3	4.4	4.8	5.2	5.2
Public debt charges	5.2	5.5	5.9	5.5	4.8	4.9	4.9
Budgetary balance	-5.8	-4.9	-3.6	-1.1	0.0	0.0	0.0
Net public debt	70.2	71.6	71.9	71.1	68.1	65.4	62.9
Financial requirements/ surplus	-4.1	-3.4	-2.2	0.2	1.4	0.7	1.0

CHILE

1. Fiscal Performance

Table 1 Fiscal Performance

	1997 MMUS\$	% GDP	1998 (Budget law)	% GDP
Current revenues	17 565	22,7	19 124	22,2
Current expenditures	13 340	17,3	15 116	17,5
Current account surplus	4 226	5,5	4 009	4,6
Capital revenues	457	0,6	405	0,5
Capital expenditures	3 193	4,1	3 840	4,5
Global surplus	1 489	1,9	574	0,7

Explanatory Note: The Budget Law set an expenditure ceiling and is based on a very conservative estimate of revenues. Therefore, when these considerations are incorporated into the analysis, the basic stance of Fiscal policy remains unchanged in 1998.

1.1 Fiscal stance remained basically neutral in 1997. The overall surplus of the General Government was 1.9 per cent of GDP, slightly down from the record level reached in 1996. The result is explained by a poor performance of tax revenues due to the significant slowdown in economic activity that took place by the end of 1996 and the first half of 1997. On the expenditure side, current expenditure, rose 5.7 per cent in real terms, well below the overall rate of growth of the economy (7.1 per cent).

In 1998 the Budget Law implies a rate of growth of global expenditure of 7.1 per cent in real terms, somewhat higher than the revised projections for economic growth this year. In order to prevent an undesired fiscal stimulus to the economy, a budget cut aimed at cutting down the growth in government expenditure by 0.5 per cent is being put into practice. In addition, investment plans by public enterprises is being adjusted also.

1.2 The fiscal authority's main objective is to contribute to the maintenance of macroeconomic stability by reducing the inflation rate, increasing domestic savings and keeping the current account deficit compatible with long run growth. In fiscal terms this means that the Government is expected to generate a surplus in the range of 1.5 per cent of GDP in order to help balance a protracted deficit in the private sector of the economy. The presence of sustained government surpluses for more than a decade has helped to achieve a significant reduction in Public Debt and further reductions are expected in the future.

2. Role of the Legislature

2.1 The Chilean Constitution gives the sole responsibility to manage the State to the Executive and subsequently severely curtails the role of Congress. National Congress participation in the Budget Process

is limited only to the discussion and approval of the Budget Law. In that respect, the initiative to propose or increase expenditure is limited only to the Government. Congress can only cut variable expenditures (i.e. those not established by permanent laws). Moreover, it can not alter, to any extent, the incomes estimated by the executive.

2.2 The bulk of the Budget is not modified during the legislative process. Most of the very few -- and marginal in macroeconomic terms -- amendments are the result of negotiations and are finally presented by the Government given the limited powers of Congress. Very few modifications affect expenditure and most of them are related to conditions to materialise given expenditures.

In the last few years the most substantive debates are on two issues: the introduction of binding ceilings to global government expenditures and the introduction of limits to budgetary flexibility within those global ceilings. On the first subject the annual law establishes since 1993 fixed ceiling on current expenditures and a margin on investment expenditures. The flexibility discussion is usually centered on the size of the provision that the ministry of Finance has to supplement sectorial budgets. This provision is included in the budget and cannot be supplemented by the government during the execution of the Budget.

2.3 The Chilean National Budget covers the whole government. It is disaggregated by Ministries and, within each of these classifications, it is presented as income and expenditure items.

2.4 The Constitution establishes a limit of 60 days to Congress in order to fully process the Budget Proposal presented by the Executive, otherwise the original proposal becomes law. Therefore Congress has set up an special procedure to process the Budget proposal. An Special Budget Committee is set up with an equal number of senators and representatives. In order to enhance the efficiency of the design and negotiation of the Budget, the general Committee is divided into five sub-committees with specific sectors of the budget to analyse and inform. Ministers and high authorities, always supported by specialists from the Budget Office of the Ministry of Finance are summoned to explain and justify the proposal for their sectors. The reports of the Sub-Committees are discussed and voted by the General Committee which informs first the Chamber of Representatives which votes the Budget, which then goes to the Senate for a similar process. If discrepancies arise, the Special Committee must approve a new report, with or without amendments and re-submit it to both chambers.

Committee and Sub-committee meetings are not open to the public, but the general discussion in both chambers is open.

2.5 Congress has full autonomy to manage its budget, within the limits set up in the Budget Law. During the last few years allowances have been made in order to allow members of Congress to hire specific technical assistance under rules set by each Chamber. In addition to that. The Senate has hired two professionals to assist the Budget Committee. However, there is widespread agreement that technical support for the Budget discussion is insufficient. Most active legislators rely on support from partisan think tanks in the opposition (they have strong ties and financial support from the business community) and from the government itself in the case of pro-government legislators.

2.6 No, there are no arrangements that enable the legislature to establish aggregate expenditure ceilings in advance.

2.7 The executive is committed to send quarterly and semi-annual data concerning the outgoing execution of the Budget. In addition, the government provides: information related to the budget execution of the previous year, personnel, the evaluation of several previously selected social programs being

executed during that year, information about management indicators, etc. The Finance Minister has the responsibility of presenting "El Estado de la Hacienda Publica", a document **describing and explaining macroeconomic policies, to the Special Budget Committee. In addition, the Budget Director presents "Aspectos Macroeconómicos del Proyecto de Ley de Presupuesto del Sector Público", a document that describes the fiscal policy and the main projects included on the budget.**

2.8 The whole budget is voted at the National Congress. However, Congress cannot modify Government estimates for permanent appropriations.

2.9 Supplementary Budget bills have not been used since 1990.

3. Fiscal Relations with Lower Levels of Government

3.1 & 3.2 During the elaboration of each year's budget proposal, ministries, services and other public sector organisations meet with the budget direction office. In those meetings the resources allocated to each organisation are determined and the budget is structured.

Municipalities have financial autonomy, they have specific sources of revenues set by law -- land-value tax, vehicles permits, etc. -- and they do not receive direct transfers from the government and are not allowed to borrow. Municipal education and health services have been financed through a voucher system -- education -- or on a per capita basis (health).

3.3 There are some constitutional restrictions concerning the borrowing activity of lower levels of the government. In fact, if allowed to borrow, any borrowing by centralised and decentralised services of the government must be authorised by the legislature.

3.4 The organisms and services of the public sector must finance their own programs and activities exclusively with resources assigned by the Budget. In this context, the central government can assist those services experiencing financial difficulties only by reallocating resources between different items contained in the budget law.

In the case of municipalities, the Government can make transfers, but they have to be informed to Congress, but this procedure have been seldom used.

4. Managerial Flexibility

4.1 The legislature operates at the level of the established budget classification, that is both upper and lower classifications. This means that the legislature reviews every item of the Budget and discusses it, item by item, at the same level of disaggregation as the Budget is presented. Concerning specific lines, the Budget has one line that includes wages and travel expenses. Administrative expenses are included in a different line.

4.2 The executive has legal faculties concerning budget flexibility. During the execution of the budget through the year, the executive can reallocate resources using decrees, resource transfers and other types of budget modifications. At the level of disaggregation of the law this can only be done by Finance Ministry decrees.

4.3 Some services, such as cleaning, computer leasing and consulting, can be contracted out. However, those activities that define the function of the public service cannot be out-sourced.

4.4 If the budget year ends and not all the appropriations have been spent, the remaining resources already transferred to the services from the Treasury are accounted as initial cash balances in the next period's budget and should be used to finance accrued expenses. Management of Treasury transfers of the services is conducted according to an annual program which is revised monthly. In practice, most of the non spent resources are not transferred to the services.

4.5 No. Managers cannot borrow. However, a global authorisation allows the President of the Republic to obtain foreign financing. To use this law, negotiations must be carried out between the service and the Finance Ministry.

4.6 Concerning staff issues, public sector entities have restrictions on the number of staff that can be employed. Most of the permanent positions are fixed by law. Salaries are also determined by law. However, there are other mechanisms of employing staff in the public sector such as one year contracting (restricted not to exceed 20 per cent of total fixed staff) and honoraries staff contracted for specific tasks. In those cases, managers have more flexibility in the hiring and firing of staff, in the setting of wages and in the other terms of the contract.

5. Accrual Accounting and Budgeting

5.1 The general system is cash accounting. However, investment and other multi-period expenses are limited on a case by case basis, by specific conditions set up in the Budget Law. The Budget Law for 1998 introduced for the first time the need for the ministry of finance to authorise global limits of compromises in future Budgets for investment expenditures.

5.2 The Budget Office is currently setting up a task force to study the introduction of an accrual-basis system.

6. Capital Budgeting

6.1 The Budget is only a cash-flow and has not separate treatment of assets and flows.

6.2 No.

6.7 Yes. The classification that concerns capital expenditures is divided into direct capital expenditure and capital transfers (to other institutions, private or public).

6.8 Yes, the main document contains a separate set of tables summarising capital expenditures. However there is no specific report on assets management. The Budget Office of the Ministry of Finance publishes once a year a report on the National Debt with Debt service projections.

6.9 Yes, there are. Some examples are: public infrastructure, housing and regional development. The information about these projects is incorporated in the Integrated Bank Project and is used as a reference both for the preparation and discussion of the Budget.

6.10 No. The National Constitution forbids earmarked revenues.

6.11 No. There is an ex-ante project evaluation process and only projects that show a social rate of return above 12 per cent (real) are approved for consideration in the budget. As for the use of capital charges, there is the idea of introducing them in capital intensive sectors like health services.

6.12 No. The budget is annual and resources for a specific multi-year project must be allocated in each budget. Usually funds are included in the base-budget according to a multi-annual program which is revised periodically.

Table 1 Fiscal Performance

	1997		1998	
	MMUS\$	% GDP	(Budget law)	% GDP
Current revenues	17 565	22,7	19 124	22,2
Current expenditures	13 340	17,3	15 116	17,5
Current account surplus	4 226	5,5	4 009	4,6
Capital revenues	457	0,6	405	0,5
Capital expenditures	3 193	4,1	3 840	4,5
Global surplus	1 489	1,9	574	0,7

Explanatory Note: The Budget Law set an expenditure ceiling and is based on a very conservative estimate of revenues. Therefore, when these considerations are incorporated into the analysis, the basic stance of Fiscal policy remains unchanged in 1998.

CZECH REPUBLIC

1. Fiscal Performance

1.1 The government's fiscal performance of 1997 is indicated in the affixed tables.

1.2 The basic objectives of the government's medium-term fiscal policy include:

- ◆ balanced state budget and maintaining the balance in the public finances
- ◆ continuing decline of public spending share on GDP
- ◆ maintaining the macroeconomic stability and a low inflation rate
- ◆ maximal economy in the field of government expenditures

2. Role of the Legislature

2.1 The proposed state budget is enacted by the Czech Republic Parliament which is authorised to modify the budget proposed by the government; the Parliament must respect the law in force, especially the Act No. 576/1990 Sb., on the Budget Rules for Using the Budget Funds of the Czech Republic and Czech Municipalities.

2.2 Since 1993 (when the Czech Republic has originated) the Parliament always enacted the budgets proposed by the government with minor changes only. Members of Parliament discuss the proposed budget in committees and at plenary sessions and propose amendments thereto; 47 amendments were enacted in 1997 and 51 in 1998 to the state budget as proposed by the government. The budget is discussed in the Parliament in a quite different way at present rather than 10 years ago, since the political, economic, and social conditions in the Czechoslovak Socialist Federal Republic of that time had basically changed in 1989.

2.3 The government proposes and the Parliament enacts only one budget document, namely the State Budget net which is divided into individual income and expenditure items, includes the budgets of individual ministries as well as subsidies for the budgets of district and municipal authorities (i.e. for the regional and local administration budgets).

2.4 The Parliament enacts the budget in three steps. During the first step Members of Parliament approve of the total volume of the state budget income and expenditure, the budget balance, and the volume of subsidies for municipal budgets; these budget quantities cannot be further modified during next steps. The proposed budget is then discussed in various Parliament committees, where the minister of the respective ministry presents to committee members the additional information concerning the budget, required by them. Committee meetings are open to the public. The most important role is played by the budget committee which considers the comments and modifying motions presented by other Parliament committees and prepares a resolution concerning them. During the second step the Parliament discusses

during the general discussion the resolutions of the budget committee, motions to modify the budget as presented by Members of Parliament, and votes on them. During the third step the Parliament votes on the final version of the budget which now includes the alterations proposed by Member of Parliament and approved in the second step. This final version is in the form of a State Budget Act for a given fiscal year.

2.5 The Parliament has no qualified staff to examine the budget, Members of Parliament can, however, ask for cooperation of experts in respective ministries, especially in the Ministry of Finance.

2.6 Yes, as already mentioned in paragraph 2.4, Members of Parliament approve of the total volume of the income, expenditure, and balance of the budget during the first step of discussing the budget proposed by the government; these quantities cannot subsequently be changed, only individual budget items within the quantities can be further modified.

2.7 Members of Parliament receive, together with the budget proposal, an extensive report concerning the development of macroeconomic quantities including a brief prediction thereof, an extensive explanation report concerning the budget proposal itself, which is presented by the Minister of Finance, and other information required from ministries or other public agencies by Members of Parliament. The budget, however, does not include outputs or performance indicators of individual programs.

2.8 The Parliament votes each year on all budget appropriations for the current fiscal year, that means also on the appropriations determined in special laws, e.g. concerning social benefits. These social appropriations determined by law represented in 1997 and 1998: 40.2 per cent and 42.6 per cent respectively of the total state budget.

2.9 Yes, in exceptional cases; for example, in 1996 the government decided to modify 1996 state budget by means of reducing the total volume of the budget income and expenditure. The government informed the Parliament about the made modification. The government is authorised to modify the budget also without the consent of the Parliament, the balance of income and expenditure must not, however, be changed. In 1997 the government proposed to make two changes in the approved budget by means of reducing the budget funds. The Parliament was again informed about and approved of these changes.

3. Fiscal Relations with Lower Levels of Government

3.1 Only informal mechanisms prevail which make it possible to involve the lower levels of government (municipal administration) in establishing a national fiscal strategy. The government can only recommend to municipalities which strategy to select, it can discuss the strategy with municipalities (e.g. during meetings of government members and chief magistrates, or during negotiations between the government and the Union of Czech Municipalities which is a special-interest organisation of municipalities). The government can only use formalised procedures and tools within the scope of its subsidy policy applied to municipalities and thus motivate the municipalities to perform the government fiscal policy tasks.

3.2 The central administration can neither control, nor approve the budgets of lower levels of administration (municipalities). It is not authorised to do so either by the Constitution, or Municipalities Act which stipulates that approving and reviewing budgets is the sole competence of the municipal administration. The government can only check the use of subsidies granted to municipal budgets from the state budget. This check is carried out by regional revenue bodies (revenue authorities); if such control body reveals that a municipality used the state subsidies in a wrong way or for purposes other than

specified, it imposes a sanction pursuant to the law on the municipality. Local authorities are, however, obliged to have audited their accounts each year.

3.3 The government has no direct tool to intervene into municipal budgets, because it cannot even directly influence their indebtedness. The only indirect tool which can be used by the government, is the state subsidies granted to municipalities. For example, one of the criteria for granting the state subsidies to a municipality will be in 1998 (and subsequently in 1999 and 2000) the amount of the municipality's debt service (sum of payments of loan principal, interest, and related fees) compared with the municipality's current income. The Municipalities Act, the amendment of which is being prepared, will stipulate certain tools for controlling the municipal debt, e.g. permissible share (20 per cent) of the debt service in the municipality's current income in the given calendar year, obligatory consent of the ministry of Finance, if a municipality wishes to receive a foreign loan, prohibition of guarantying the debts of legal entities and individuals by municipality's property and income, etc.

3.4 Each municipality is fully responsible for its finances and the state (government) does not take over any obligations relating municipal finances. In case of financial difficulty, the municipality can ask the Ministry of Finance for temporary financial assistance, i.e. a loan bearing no interest; Ministry of Finance consider them case by case. The municipality can also ask the district office (regional administration body) for the same financial assistance. In case of extraordinary events as, for example, the floods in 1997, the government can also use both budget and non-budget funds to solve financial difficulties of municipalities due to the damage caused by and other effects of extraordinary events.

4. Managerial Flexibility

4.1 The Parliament approves on hundreds of budget votes; it approves budgets of individual chapters (i.e. ministry budgets) classified as summary votes (total income, total expenditure) and partial indicators (e.g. employee salaries, statutory insurance premiums paid by the employer, current and capital expenditure as per individual programs, individual types of subsidies for municipalities, capital expenditure on individual investments, etc.). All summary and detailed budget lines are included into the State Budget Act enacted for a given fiscal year. The government, however, is entitled to change ex post any budget line, even after the budget is enacted by the Parliament, providing that the approved budget balance is not changed. Government must inform Parliament about these changes (ex post).

4.2 The budget appropriations can be moved from one item into another within a program (or within a budget division, which usually is the budget of a ministry) or from one program to another only providing that the total approved volume of budget appropriations is not changed. The reallocations are approved by the government, if these relate the shifts of funds between programs (or budget divisions), or by the budget division or program administrator (respective minister), if these relate the reallocations within one program or one budget division. No specific prohibitions exist against reallocating appropriations from transfer programs.

4.3 Managers of central government bodies and agencies can contract out services; the decisive criterion is the efficiency of contracted services. Managers should, however, comply with the Public Tender Act which stipulates the conditions for selecting external contractors.

4.4 The appropriations which are not spent in the year, for which these were appropriated, must not be carried over to the next year.

4.5 Managers of government bodies (ministries) and agencies are not allowed to borrow against future appropriations.

4.6 There is a central regulation in place of government organisation staff. The binding number of staff is determined by the government; the proposed budget appropriates funds for salaries and related expenses (e.g. insurance premiums for the social security scheme) for such binding limits. When hiring and firing staff, managers follow the laws in force (e.g. Labour Code). Most staff of government organisations are subjected to the unified wages tariffs applied depending on the criteria of qualification and practice of an employee. The organisation top manager can afford, in addition to the basic tariff salary, a non-tariff component (so-called personal assessment); this part of the salary depends on the quality and performance of a given employee. The manager must respect the limit of total funds for salaries, which is appropriated by the approved budget for the organisation such manager controls.

5. Accrual Accounting and Budgeting

5.1 The government uses the cash-based accounting. The accrual-based accounting is used by public corporations and non-profit organisations subsidised by the government.

5.2 The accounting basis used by the government has not changed during past years, the cash-basis has still been used. The government does not consider at present any move to the accrual-based accounting, the Ministry of Finance, however, studies the knowledge and experience of the countries which use the accrual-based accounting, and evaluates the possibilities of applying the accrual-based accounting in the Czech Republic in the future.

6. Capital Budgeting

6.1 Both capital and operating expenditures are consolidated in a single budget, but separately budgeted.

6.2 There has never been a separate capital budget in the Czech Republic (not even in the former Czechoslovak Federal Republic before 1993).

6.7 Capital expenditures are a separate category within the budget; they are specified in the budget as a sum total for the entire government sector and separately for individual budget divisions (ministries), and furthermore appropriated in detail for each investment program. The capital subsidies (grants) to lower levels of government, i.e. municipalities, are separately budgeted, the budget also differentiates between tangible (physical) and intangible (non-physical) capital expenditures.

6.8 The budget (State Budget Act) is supplemented with a set of tables summarising capital expenditures by individual investment programs and investments.

6.9 The ministries responsible for the infrastructure development prepare medium-term prospects of capital expenditure development and these are used for reference in the annual budget process to plan capital expenditures.

6.10 Capital expenditures are financed pursuant to the same rules as other expenditures, with the exception of the capital expenditure on the environment, which expenditure is designed for correcting the

damage caused by exploitation of reserved deposits; this capital expenditure is partially financed using payments for exploited reserved minerals.

6.11 The operating budget includes, for example, the current interest on the debt service, but no charges for the employed capital.

6.12 The legislature approves only the appropriations for the given fiscal year, i.e. approves the annual increment of funds for long-term capital projects. The reason is the laws in force, which do not allow multi-year (e.g. medium-term) budgeting.

REVENUES OF THE CENTRAL STATE BUDGET

Billions of Koruna	1996		1997				1998	
	Final Reality	%	State Budget	%	End-Q4 Expected Reality	%	State Budget	%
TOTAL REVENUE	476,4	31,2	540,2	32,7	500,6	30,3	524,9	28,7
TAX REVENUE	457,4	30,0	524,1	31,8	478,5	29,0	511,6	27,9
Direct taxes	78,3	5,1	90,9	5,5	74,8	4,5	67,9	3,7
- Corporate Income	48,6	3,2	55,0	3,3	41,6	2,5	34,8	1,9
- Personal Income	29,7	1,9	35,9	2,2	33,2	2,0	33,1	1,8
Indirect taxes	174,8	11,5	197,4	12,0	186,4	11,3	206,4	11,3
- VAT	109,3	7,2	127,8	7,7	117,6	7,1	128,0	7,0
- Excise	61,2	4,0	65,4	4,0	64,2	3,9	74,0	4,0
- Motor Vehicle	4,3	0,3	4,2	0,3	4,6	0,3	4,4	0,2
Taxes on property, gifts, inheritance	3,9	0,3	4,5	0,3	5,0	0,3	4,3	0,2
Social security contributions	174,3	11,4	205,5	12,5	191,0	11,6	209,5	11,4
- From Employers	127,5	8,4	151,1	9,2	x	x	153,8	8,4
- From Employees	39,2	2,6	46,5	2,8	x	x	47,3	2,6
- Self-Employed	7,6	0,5	8,0	0,5	x	x	8,4	0,5
Taxes on international trade	19,7	1,3	19,6	1,2	14,9	0,9	15,2	0,8
Net carryover from previous year	0,0	0,0	0,0	0,0	0,9	0,1	0,0	0,0
Other (including fees and highway tax)	6,4	0,4	6,2	0,4	5,5	0,3	8,3	0,5
NON-TAX REVENUE	19,0	1,2	16,1	1,0	22,1	1,3	13,3	0,7
Entrepreneurial and property income	8,6	0,6	7,3	0,4	8,5	0,5	8,6	0,5
- From Czech National Bank	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- From Enterprises	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
- From budgetary and subsid. organis.	5,1	0,3	4,3	0,3	5,4	0,3	6,2	0,3
- Interest	3,5	0,2	3,0	0,2	3,1	0,2	2,4	0,1
Fines	1,0	0,1	1,1	0,1	1,0	0,1	1,1	0,1
Other	9,4	0,6	7,6	0,5	12,6	0,8	3,6	0,2

GDP in current prices

1,524,7

1,650,0

1,831,0

EXPENDITURES OF THE CENTRAL STATE BUDGET

Billions of Koruna	1996		1997				1998	
	Final	%	State	%	End-Q4 Expected	%	State	%
	Reality		Budget		Reality		Budget	
TOTAL EXPENDITURES+NET LENDING	477,9	31,3	540,2	32,7	516,4	31,3	524,9	28,7
CURRENT EXPENDITURES	423,4	27,8	479,5	29,1	470,6	28,5	484,9	26,5
On goods and services	103,6	6,8	123,2	7,5	108,3	6,6	118,2	6,5
- Wages and Salaries	45,5	3,0	50,9	3,1	47,8	2,9	48,4	2,6
- Other	58,1	3,8	72,3	4,4	60,5	3,7	69,8	3,8
Interest payments	14,0	0,9	14,4	0,9	17,6	1,1	19,3	1,1
Transfers	305,7	20,0	342,1	20,7	344,6	20,9	347,4	19,0
- to Enterprises	26,2	1,7	27,6	1,7	33,2	2,0	28,3	1,5
--of which: the losses of Consol. Bank	x	x	x	x	5,1	0,3	x	x
- to Subsidized Organizations	59,0	3,9	61,0	3,7	61,0	3,7	55,4	3,0
- Local Authorities	21,7	1,4	19,6	1,2	24,8	1,5	19,8	1,1
- to Extra-Budgetary Funds	0,0	0,0	0,1	0,0	0,1	0,0	0,2	0,0
- to St. Fund for Market Regul. in Agric.	1,1	0,1	1,3	0,1	1,1	0,1	1,1	0,1
- to Health Funds	16,4	1,1	18,3	1,1	18,4	1,1	18,4	1,0
- to Households	180,7	11,9	212,5	12,9	206,0	12,5	222,7	12,2
--Social Security	150,7	9,9	177,4	10,8	172,8	10,5	185,9	10,2
--Unemployment	2,7	0,2	3,1	0,2	4,0	0,2	3,9	0,2
--Compensatory Income Support	0,6	0,0	0,0	0,0	0,0	0,0	0,0	0,0
-- State Social Support	26,7	1,8	32,0	1,9	29,2	1,8	33,0	1,8
- to Abroad	0,5	0,0	1,5	0,1	0,2	0,0	1,4	0,1
- other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
CAPITAL EXPENDITURES	57,0	3,7	65,8	4,0	50,6	3,1	46,3	2,5
by Budgetary Organizations	25,8	1,7	35,1	2,1	16,3	1,0	17,0	0,9
Transfers	31,2	2,0	30,7	1,9	34,3	2,1	29,3	1,6
- to Enterprises	4,8	0,3	5,9	0,4	5,9	0,4	6,0	0,3
- to Subsidized Organizations	16,6	1,1	18,9	1,1	17,5	1,1	13,5	0,7
- to Local Authorities	9,8	0,6	5,9	0,4	10,9	0,7	9,9	0,5
- to Extra-Budgetary Funds	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
Other	0,0	0,0	0,0	0,0	0,0	0,0	0,0	0,0
LENDING MINUS REPAYMENTS	-2,4	-0,2	-5,2	-0,3	-4,8	-0,3	-6,4	-0,3
BALANCE	-1,5	-0,1	0,0	0,0	-15,7	-1,0	0,0	0,0

GDP in current prices

1,524,7

1,650,0

1,831,0

DENMARK

1. Fiscal Performance

1.1 *The balance on the general government overall surplus is expected to amount to approximately DKK 6.3 billion in 1997.*

This corresponds to approximately 0.6 per cent of GDP.

1.2 *The balance on the general government overall surplus for 1998 is estimated to DKK 14.2 billion or 1.2 per cent of GDP.*

2. Role of the Legislature

2.1 *In principle any Member of Parliament can present a budget proposal.*

In practice however the Parliament can not make its own budget proposal (it does not have the administrative capacity), but it is entitled to decide changes to any part of the Governments budget proposal before finally adopting the budget.

2.2 Yes, the legislature typically enacts the budget as proposed by the government, including numerous amendments proposed by government. These amendments include changes to the budget proposal agreed with parties in Parliament.

Amendments proposed by	government	opposition members
1998	606	399
1997	664	281
1996	610	239

Amendments proposed by the government are typically approved whereas amendments proposed by opposition members of the legislature are typically rejected.

The possibility for the legislature to acquire knowledge on the budget process and the social, financial and economic implications of the adopted budget proposal is improved over the past ten years.

The supporting notes to the budget proposal are improved. The new annual reports that all agencies shall supply to the Parliaments Finance Committee and the Auditor General combines among other things an expanded financial reporting with reporting on performance compared to targets.

There has been no research to establish whether the legislation now takes a more active role in the budget process.

2.3 *The budget proposal covers Central Government, and is approved by Parliament as a whole. The budget proposal is based on a draft budget proposal for each ministry.*

2.4 *Discussions on the detailed contents of the Government's budget proposal are taken in the Parliament's Finance Committee. The Parliament debate on the proposal usually follows a broader perspective on the economic policy.*

The Finance Committee discusses the Finance Bill before its first reading in Parliament. In the period between first, second and third readings in Parliament the Finance Committee poses elaborating questions to the ministries, and make recommendations regarding the budget proposal. It may also ask ministries to testify at committee meetings.

The sectoral committees may discuss the budget proposal. The formal competencies' regarding the budget proposal lies, however, exclusively in the Finance Committee.

Government officials do not participate if the Minister is asked to testify at meetings in the Finance Committee. The chairman of the committee is under exceptional circumstances authorized to grant exemption from this general rule, for instance in matters of a very technical nature.

Committee meetings are not open to the public.

2.5 *In principle no administrative resources are available to the legislature for reviewing the budget, except for the secretary of the Finance Committee. However, some (larger) political parties have established secretariats, which may assist in this task. In addition members of the Finance Committee are assisted by junior staff from each ministry in gathering information.*

2.6 *There exist no such arrangements. The authority to determine the aggregate expenditure ceilings for the budget lies in the hand of the Government.*

2.7 *The budget documents include for each appropriation specifications on the purpose of the appropriation.*

The initial specification includes targets for evaluation. In the further specifications measures for production/activity in previous years and projections for future years are given and analysis of the productivity, efficiency and effectiveness (if possible) are supplied.

All agencies shall (from the fiscal year of 1997) supply to the Parliament's Finance Committee and the Auditor General annual reports for examination. The annual reports, among other things, combine an expanded financial reporting with reporting on performance compared to targets.

By giving the annual reports to the Finance Committee it is intended to supply Parliament with a better basis for evaluating the budget proposal than the activity and productivity/efficiency measures which has previously been presented in the budget documents.

As the fiscal accounts for year t-2 is presented in May and the budget proposal for year t is presented in August, the Finance Committee can easily use the new annual reports when examining the budget proposal.

2.8 *The total Finance Bill is annually voted by the Parliament, both programs authorised in separate legislation and other appropriations. In 1996 approximately 51 per cent of total expenditures concerned appropriations authorised in separate legislation (statutory expenditures).*

2.9 *When the budget proposal has been adopted by Parliament and the fiscal year has begun, changes to the appropriations in the budget can be implemented through applications to the Parliament's Finance Committee. The Ministry of Finance must approve the application before presenting it to the Parliament's Finance Committee.*

All applications passed by the Finance Committee during the fiscal year are combined in one Supplementary Appropriation Act after the end of the fiscal year.

3. Fiscal Relations with Lower Levels of Government

3.1 *The mechanisms in place for consultation with lower levels of government in matters of national fiscal strategy are indirect and informal in character rather than direct and formal. To carry out the intentions and targets of the Government, it is necessary to keep the local or regional authorities in step.*

Negotiations are the preferred medium of consultation in matters of national fiscal strategy.

There exist explicit principles whereupon the general government expenditures are regulated. If e.g. subventions to lower levels of government from central government are altered the total general government expenditures are not changed.

Most local government activities are regulated by legislation, but in most areas local government has considerable freedom in resource allocation and decisions on levels of service provisions. The vital revenue base of local governments is the proportional income tax. They are free to decide tax rates, but Government has in recent years strongly recommended that they do not raise them.

3.2 *Central Government has no formal authority in reviewing or approving the budgets of lower levels of government.*

3.3 *Central Government imposes strict restrictions on the borrowing activity of lower levels of government. The central government offers however specific borrowing arrangements for certain types of investments.*

3.4 *There exist specific borrowing arrangements for municipals facing financial difficulties.*

In some circumstances the central government is authorised to deprive municipals of the control of their assets. For the time being one municipal is subjected to this.

There are recent examples of actions taken by the national government to assist lower levels of government with financial difficulties. Especially the local authority of Copenhagen has faced economic difficulties earlier in the nineties. The national government has in its efforts to support the Capital used different instruments, but has in general hesitated to use direct financial support.

4. Managerial Flexibility

4.1 *The budget consists of approximately 1100 different appropriations.*

In general, agencies have one appropriation for their operational expenditures, which may include minor expenditures on grants, contribution and capital. Major expenditures on subsidies, transfers, lending and capital are always carried on separate program appropriations.

Within the appropriation the Ministry of Finance impose a limit on *pay* at management levels. Apart from this, the Ministry of Finance does not restrict managerial discretion.

4.2 *The budget system includes a possibility for spending ministries to get authorisation for virement of operating expenditures between appropriations or between different parts of an expenditure or transfer program.*

This is not a general budget rule. To take effect spending ministries are required to specify beforehand between which appropriations such transfer procedures are requested. This specification has to be part of the budget documents presented to Parliament.

In general the budget system contains 6 types of appropriation. Each type has its own set of rules. Two of the types concern operating expenditure, one construction works, and three types different kinds of transfer programs, loans etc.

In general agencies/ministries are not allowed to cover administrative costs in the form of pay with reallocated appropriations from transfer programs.

4.3 *Managers are requested to put to tender support services and to contract out services if it is proved to be more advantageous for the state.*

4.4 *Unspent parts of the appropriation are automatically carried over to the next fiscal year due to a general budget rule for carry-over. These carry-over procedures do not cover appropriations authorised in separate legislation and certain specific expenditure and transfer programs.*

The general rule is that the full amount is carried over to the next fiscal year.

4.5 *There exist such arrangements in the Danish budget system.*

Expenditures in operating agencies are allowed to exceed the appropriation with up to 2 per cent, and as a maximum DKK10 millions on the condition that the economic result in the next fiscal year shows a surplus of an equal size.

Expenditures in state enterprises are allowed to float under certain agreed conditions and limitations. The balance of the fiscal year (*nettotallet*) must not exceed 20 per cent of expenditures when the institution is realising a surplus and must not exceed 10 per cent of expenditures when realising a deficit.

4.6 *Within the appropriation the Ministry of Finance imposes a limit on pay which covers all departments and most agencies though not state enterprises. There exist no quantitative restrictions on the number of staff that can be employed in government organisations as long as total pay is not exceeded.*

The flexibility regarding hiring and firing is for most categories of staff regulated by general legislation.

For some categories of staff (staff in higher wage scales) the Ministry of Finance should approve new appointments.

The multitude of State-employed is appointed on a group contract basis. A diminishing part of staff has permanent public servant status. For these categories of staff managers have little flexibility in setting the wages and other terms of employment.

There exist possibilities for managers to grant bonus on an individual basis.

5. Accrual Accounting and Budgeting

5.1 The accounting method is close to (but not fully) accrual. This means that operating expenditures in general are calculated for at the time of delivery, not the time of payment.

The operating budget does not include charges for the use of capital. State enterprises should however perform an accounting depreciation on invested capital, but this has no budgetary implications.

All government organisations use in principle the same accounting method.

From 1998 the accounting method implies that interest expenditures (or –revenues) on central government debt is classed with the period the mortgage has been raised, independently of the time of payment.

5.2 Up to 1925 the accounting method was cash-based.

In the period 1925 to approximately 1955 the accounting method was fully accrual. This had the implication that the operating budget included charges for the use of capital (depreciation and return on capital employed). Afterwards the budget system ceased to contain return on capital employed and depreciation was only retained for state enterprises.

The argument for this change in principals was that it was of minor significance whether the accounting methods for ordinary state agencies used a full-cost principle since the figures should not serve as a basis for economic evaluation, an assessment of total revenue or as a basis for price determination.

6. Capital Budgeting

6.1 Capital expenditures and operating expenditures are consolidated in a single budget. However the budget system makes a distinction between the two kinds of expenditures. Capital investments are separated from operating expenditures on specific appropriations and are subject to specific regulation.

6.2 There have not been changes in the existing principles within the last 30 years. There are no plans to abandon these principles in the near future.

6.7 Capital expenditures are a separate category within the budget. For every ministry a capital investment budget is specified. Every type of capital expenditure is treated this way.

6.8 The main budget document contains a set of tables summarising capital expenditures.

6.9 The Ministry of Finance maintains a public investment program including central and local governments and investments of public owned corporations.

Public owned corporations have in recent years undertaken large infrastructure investments. Examples are the construction of a natural gas distributing net (in the early 1980's) and the bind together of the Danish

provinces through bridge construction (early 1990's). Privately owned companies undertake other large infrastructure investments, such as the expansion of Copenhagen Airport.

However when determining the long-term public investments with implications for the capital expenditures on the budget an assessment on the investment plans in publicly owned corporations and private companies are taken into account.

6.10 In general capital expenditures are financed in the same way as other expenditures.

6.11 The operating budget does not include any charges for the use of capital. State enterprises should perform an accounting depreciation on invested capital, but this have no budgetary or financial implications at all.

In their annual financial Report State enterprises should however perform a full-cost calculation in connection to the fiscal years economic outcome.

6.12 The legislature provide partial funding incrementally year by year until the project is completed, but the total cost of the project have to be approved by the legislature prior to the start of the project.

The manager can enter into a contract, which causes expenditures in future fiscal years if this is necessary for the legal and technical execution and the total expenditures are not exceeded.

This technique is applied because in principle all appropriations in the Danish budget system are for one year, however the total costs of the project and the expected annual expenditures within the planning period is included in the budget documentation.

FINLAND

1. Fiscal Performance

1.1 *The government's fiscal performance in 1997 - 98*

The general government deficit/GDP (EMU-definition) in 1997 was 0.9 percent, improving 2,4 percent from preceding year. The improvement was all due to central government, even if the central government deficit was still 4,1 percent of GDP. The local authorities' and social security funds' financial situation deteriorated slightly. In 1998, the improvement of government finances is expected to continue, the net lending turning positive (0,6 percent of GDP). The central government deficit is expected to improve by 1½ percent in relation to GDP.

Much of the improvement is due to cyclical development. Last year the GDP growth was almost 6 percent and this year it is forecast at 4 percent. The unemployment is accordingly declining fast. Also the very good profitability of business sector during the last years is increasing the corporate tax-revenues. Still, the cutbacks done in government expenditures have been and continue to be substantial. In 1999 the cutback decisions made in 1990s amount to near 10 per cent of GDP, and in 1997 and in 1998 the cutback decisions correspond 1 - 1½ percent of GDP.

1.2 *The government's medium term fiscal policy objectives*

The general election in Finland will be held in 1999, the next government is likely to modify the medium term fiscal targets. The government medium term budgetary framework given 3 March 1998, indicate a real decline in 1999 and an unchanged total of central government expenditure until 2002. With conventional tax and GDP scenarios the improvement of central and general government financial balance continues. The general government balance is forecast to be in surplus already in 1998. The central government is expected to remain in a small but declining deficit in medium term.

The indebtedness of the government in relation to GDP started to decline already in 1997, when the indebtedness (EMU-definition) remained at 56 percent. Also the central government debt in relation to GDP declined. The central government deficit on cash basis will also decline more rapidly than in the national accounting framework, with sales receipts of government owned shares. This will further improve the indebtedness development of the public sector.

2. Role of legislator

2.1 *Parliament's right to decide on the contents of the budget is not restricted. Preconditions have, however, been set relating to the procedures for amending the Government's budget bill. Fundamental amendments to the bill are possible only on the basis of the budget initiatives relating to them. The initiatives must be submitted within a certain time limit.*

2.2 *Parliament approves most of the appropriations included in the budget bill in the form proposed by the Government. The most important proposed amendments come from the Government itself during the reading of the budget in Parliament, which lasts about for months. When there are majority governments, the amendments are usually approved without alterations. Individual members of Parliament make between 400 and 700 proposed amendments to the budget every year. In recent years only a few have been approved.*

The role of Parliament as the budgetary authority has weakened during the past ten years. This is partly because the budget bill has become more general, partly because major units has been transferred outside the budget as a result of establishing extra-budgetary funds, extra-budgetary state enterprises and government-owned corporations.

2.3 *The budget proposals of all the ministries are collected into the Government's budget bill, which is divided into main categories, observing the division between the ministries.*

2.4 *The stages for reading the budget in Parliament are:*

- the preliminary reading at the beginning of September
- the committee reading, about 3.5 month
- the plenary session (only one reading) about one week in December .

Amendments to the Government's budget bill are made mainly at the committee stage, rarely in the plenary session any more.

The budget is handled by one committee, the finance committee, which is divided into nine sub-committees. One of these, the taxation sub-committee, handles taxation legislation i.e. the budget's revenue.

Other special committees have had the right for several years to give to the finance committee an advisory opinion about the Government's budget bill concerning their own area. Representatives of the ministries are heard as experts during the committee stage of the budget . Meetings of the finance committee and its sub-committees are held in closed session. Nor are the experts present when the committee makes decisions.

2.5 *The finance committee has two counsellors (there are also special arrangements in two of the sub-committees) one department secretary and two assistants.*

2.6 *In theory there is no cost ceiling on amendments, but in practice "budget discipline" requires the number of amendments to be relatively small.*

2.7 *The budget bill generally includes an economic review. In addition, in the last budget bill there was a description of the financial support to be distributed via the taxation system. The objectives of the ministries in each main category have also been described at a general level in connection with different projects. During the committee stage Parliament generally asks the ministries for numerous further explanations.*

2.8 *In the plenary session of the budget bill hundreds of votes are usually taken. As was said before, they rarely lead any longer to amendments after the committee stage.*

2.9 *In normal circumstances the Government gives 2 to 3 supplementary budgets to Parliament every year. They are handled in the same way as the primary budget bill.*

3. Fiscal Relations with Lower Levels of Government

3.1 *According to the section 8 of the Law on Local Authorities, "the legislation on local authorities, matters of municipal administration and finances that are important and far-reaching in principle, and coordination of State and municipal finances shall be dealt with in a negotiation procedure between the State and local authorities, provisions on which will be laid down by decree".*

For these negotiations, a standing committee has been appointed, with members representing the State and the local authorities. The parties prepare a common evaluation on the effects of the national fiscal policy on the finances of the local government sector.

3.2 *The local authorities have an extensive self-government and are allowed to decide upon their budgets without the control or interference of the central government.*

A general description and the law texts on the finance of the local authorities are attached.

3.3 There are no central government restrictions nor control on the borrowing of local authorities in the domestic or international financial markets. The central government monitors the financial developments in the local authorities sector, including their borrowing.

3.4 The central government may grant discretionary financial assistance to a municipality, primarily due to unusual or temporary difficulties in the municipal economy. Local special conditions are also taken into account when determining the need for financial aid. When granting discretionary assistance, conditions related to improving the economy of the municipality can be set for granting and using the assistance. The appropriations for discretionary assistance vary yearly, and their importance for the local government sector is small. In the 1998 budget, FIM 200 million has been reserved for the discretionary assistance.

In the very exceptional case of a municipality confronting exceptional financial difficulties, a special state support may be granted to ensure that the municipality is able to provide its residents with the necessary basic services and to fulfil its financial commitments without raising the tax rate over the long-term to a level unreasonably higher than other municipalities. The access to this special support and the state control upon the municipality concerned are stipulated in a case-tailored law, that has been applied only once.

4. Managerial Flexibility

4.1 In Finland, the budget contains about 500 budget titles for appropriations. The Parliament votes for each of them. The degree of detail of the appropriations varies. A title for appropriation must contain at least the following elements: the amount of appropriation and the purpose of the appropriation. In early 1990's, the formerly separate appropriations for wages and salaries, purchases of goods and services, inventories etc. for a ministry or an agency were consolidated into a lump-sum running-cost appropriation.

4.2 Appropriations may be transferred from one budget title to another only with the consent of the Parliament or in certain other cases strictly provided in law. Within the budget title the amounts of the

appropriation can be moved from one purpose to another if the budget title allows it, i.e. there are no restrictions.

4.3 The State agencies are in principle free to contract out services. However, this does not allow that the responsibility for services could be contracted out. So, the public powers entrusted to agencies by law cannot be delegated.

4.4 There are three types of appropriations:

- fixed appropriations, which may not be exceeded nor carried over to next fiscal year,
- estimated appropriations, which may be exceeded but not carried over, and
- two-year (or three-year) transferable appropriations, which may not be exceeded, but may be carried over one year (or two years) after the fiscal year for which the appropriation was authorized.

The carry-over of transferable appropriations is automatic, unless the Council of State decides otherwise.

4.5 The Finnish budget contains not only appropriations but also authorizations. In connection with the State Budget procedure, an authorization may be granted, limited to its amount and purpose, to enter into contracts and undertake obligations so the appropriations for the expenditure incurred by these contracts or obligations are entirely or to the remaining amount entered into later budgets. The authorization may be used during the financial year covered by the budget in which it is included.

Borrowing against future appropriations is not allowed.

4.6 During 1992-1996 the ceilings of staff numbers of central government organisations were bindingly defined for the administrative branches in the State budgets. The main purpose with these so called "personnel frames" was to enforce the decisions made by the government 1989-1991 concerning reduction of the staff numbers. Before 1992, the maximum numbers of staff were decided in the budgets separately for each agency.

From 1997 on, the binding personnel frames have been replaced with non-binding estimates of the staff numbers for each branch of administration for the budget year and the preceding year, to provide strategic information on the development of staff numbers.

The government offices have in principle a considerable freedom in allocating their resources and dimensioning their staff within the limits of their appropriations. They have, as a rule, the competence to hire and fire staff, taking into account relevant provisions in laws and collective agreements.

However, establishing the highest offices (general managers, department chiefs in ministries etc.) requires a specific authorization in the budget. The appointment of the highest civil servants of the agencies has been reserved to the Cabinet or the President.

The terms of employment for the staff of ministries and agencies have in a great extent been regulated in collective agreements, which have been bargained by the Ministry of Finance at the central level (general terms of employment and the framework for negotiations by the agencies) and by the agencies themselves.

The agencies may, when necessary, exceed the level of benefits guaranteed in the collective agreements, but not diminish it. Such decisions must take place within the limits of the appropriations.

The decisions on the salaries of the highest-ranking civil servants (about 120 persons) are taken by the Cabinet.

5. Accrual accounting and budgeting

5.1. The transactions will be recorded in two different ways: in the financial bookkeeping and in the budget bookkeeping. The financial bookkeeping is done by accrual-basis, except transfer income and expenses, which are handled according their entering to the budget bookkeeping.

5.2. We have moved to accrual-basis in the financial bookkeeping in the 1st of January, 1998.

5.3. The State budget economy is a financial unit legally required to keep accounting records. The State bookkeeping includes the bookkeeping of the government agencies and the bookkeeping of extrabudgetary State funds.

5.4. The frequency of financial reporting on accrual-basis is one month. There are also cash-based monthly reports, such as "Central government's cash receipts", "Central government's cash expenditure" and "The financial position of central government finances". The yearly reports of the government agencies are audited by the State Audit Office of Finland.

5.5. The national property (heritage assets) acquired before the 1st of January 1998, is included in The State Balance Sheet, but valued only when the asset is or can be used in operating purposes of the government agencies. All national property bought after the beginning of year 1998, is included in The State Balance Sheet.

5.6. Our purpose is to follow the private sector principles in the central government accounting. This takes place within the framework defined in the State Budget Act and State Budget Decree, not the Bookkeeping Act, which is applied in the private sector and in local authorities. The Ministry of Finance issues instructions on the State central bookkeeping and the State Treasury issues the supplementary rules and regulations on the bookkeeping of government agencies and extrabudgetary State funds.

5.7. The transactions shall be entered in the budget bookkeeping in the same basis as they occur in the budget. At the state level, there are no budgets based by the financial bookkeeping yet.

6. Capital budgeting

6.1. The Finnish State Budget is a single budget, where appropriations are classified according to the type of expenditure (consumption, transfer, investment, other). For agency appropriations, this basic classification is adjusted so that consumption expenditure and routine purchases of capital goods (other than buildings, other construction works, land and financial investments) have been combined into an operating appropriation.

6.2. Up to 1966, the Finnish State budget had two separate main classes for capital expenditure (one for lending and other revenue-generating investments and one for infrastructure and other not revenue-generating investments) and one main class for capital finance. The main classes for capital expenditure were combined into the Ministerial main classes in the 1967 budget.

- 6.7. Capital expenditures are a separate item-level category that penetrates the major divisions of the budget (administrative branch and function or agency). The breakdown of capital expenditure used is shown in the attached summary table of expenditure by economic class.
- 6.8. There are no separate chapters nor tables on capital expenditures.
- 6.9. Spending ministries having major infrastructure investments discuss them in their medium-term plans and occasionally long-term plans and use them as a background material in their budgetary planning.
- 6.10. The vast majority of investments are financed as expenditures in general. In a couple of "test cases", private finance is being experimented.
- 6.11. The inclusion of charges on the use of capital in the operating budgets of agencies is discussed. The adoption of accrual accounting in 1998 gives a solid background for it.
- 6.12. Multi-year capital projects are as a rule financed incrementally. The rationale for this is the tradition of cash budgeting.

FRANCE

1. Résultats budgétaires

1.1 Cf les Situations mensuelles budgétaires au 31 décembre 1997 et au 31 janvier 1998. Ces informations sont accessibles à l'adresse internet suivante :
<http://www.finances.gouv.fr/indicateurs/budget>

1.2 La France s'est engagée, dans le cadre du pacte de stabilité, à rechercher l'équilibre des finances publiques à moyen terme. Le programme de stabilité qui doit être déposé avant le 1er mars 1999 présentera les objectifs quantifiés retenus pour la période 1999-2001.

2. Rôle du Parlement

2.1 Les principales restrictions à la capacité du parlement de modifier le projet de budget proposé par le gouvernement sont la recevabilité financière des amendements d'origine parlementaire (interdiction d'augmenter une dépense ou de réduire les recettes par rapport au droit existant), le vote de la loi de finances en deux parties (avec l'adoption des recettes et d'un plafond de dépenses à l'issue de la première partie) et les instruments du parlementarisme rationalisé (en particulier la possibilité de procéder à une seconde délibération du texte avec un vote bloqué englobant les amendements du gouvernement).

2.2 Le projet de budget présenté par le gouvernement a toujours été adopté par le Parlement, avec des amendements qui peuvent « déplacer » plusieurs milliards de francs en recettes mais qui modifient peu les masses budgétaires en recettes et en dépenses et n'affectent le solde que dans des proportions très marginales (généralement moins de un milliard de francs).

2.3 Les autorités locales présentent des budgets distincts de celui de l'Etat. Au sein du budget de l'Etat, il existe à la fois un document unique (la loi de finances) et une présentation par ministères.

2.4 Le texte est examiné en première lecture d'abord par l'Assemblée, puis par le Sénat, dans des délais contraignants prévus par la Constitution. Une commission mixte paritaire est réunie pour dégager un éventuel accord entre les deux assemblées. A défaut d'accord, il est procédé à une nouvelle lecture par chaque assemblée et l'Assemblée nationale peut trancher en dernière lecture. La commission des finances est responsable de l'examen du texte. Les autres commissions sont saisies pour avis. Les responsables des ministères et des organismes publics peuvent éventuellement être auditionnés dans les réunions de commissions sectorielles. Les réunions de commissions ne sont pas publiques mais font l'objet d'un compte rendu détaillé.

2.5 La commission des finances dispose d'une dizaine d'administrateurs, directement concernés par l'examen du budget.

2.6 Le vote de l'article d'équilibre en fin de première partie comporte un plafond global de dépenses, qui doit être respecté lors de la discussion de deuxième partie sur les dépenses.

2.7 L'examen de la loi de finances est l'occasion de passer en revue les grands programmes de la politique gouvernementale et l'ensemble des politiques sectorielles.

2.8 Il existe trois catégories de crédits votés par le Parlement : les crédits évaluatifs (dépenses qui présentent un caractère juridiquement obligatoire et pour lesquelles l'administration ne dispose d'aucun moyen d'appréciation) pour lesquels les dépenses peuvent s'imputer au besoin au delà de la dotation, les crédits provisionnels qui peuvent être complétés à partir d'un crédit global par arrêté du ministre des Finances et les crédits limitatifs qui ne peuvent être modifiés par décret que dans des circonstances exceptionnelles ou d'urgence.

2.9 Les collectifs budgétaires interviennent nécessairement en cours d'exercice. La procédure est la même que pour la loi de finances initiale. Le gouvernement présente toujours un collectif budgétaire en fin d'année et parfois un collectif en cours d'année, lorsque les conditions générales de l'équilibre initial sont bouleversées. Deux collectifs ont été votés en 1995, un seul en fin d'année en 1996 et 1997.

3. Relations avec les niveaux d'administration inférieurs

3.1 Il n'existe pas, en France, de mécanismes de consultation des niveaux d'administration inférieurs dans le cadre de la définition d'une stratégie budgétaire à l'échelon national. Toutefois, la loi de finances est présentée chaque année au comité des finances locales (composé d'élus nationaux et locaux et de représentants de l'Etat), qui peut émettre des avis. Ces avis sont relayés par l'intermédiaire des parlementaires qui sont également le plus souvent des élus locaux.

3.2 La loi de décentralisation du 2 mars 1982, en transférant le pouvoir exécutif des préfets aux assemblées d'élus, a supprimé le contrôle a priori exercé jusque là sur les actes des collectivités locales par le représentant de l'Etat. Toutefois, pour être exécutés, les actes budgétaires sont transmis au représentant de l'Etat qui exerce un contrôle de légalité et un contrôle budgétaire. Le domaine du contrôle budgétaire est strictement défini et ne concerne que les actes budgétaires au sens strict, c'est-à-dire, le budget primitif ainsi que les budgets supplémentaires et les décisions le modifiant, cela tant pour le budget principal que pour les budgets annexes. Il a pour objectif le respect de quatre règles de gestion comptables précisées par la loi : l'annualité du budget, son équilibre réel (c'est à dire le fait que la section de fonctionnement et la section d'investissement doivent être respectivement votées en équilibre, les recettes et les dépenses ayant été évaluées de façon sincère), l'inscription des dépenses obligatoires (en particulier les dépenses nécessaires à l'acquittement des dettes exigibles ou celles prévues par la loi), enfin, le vote (qui doit intervenir avant le 30 juin de l'année suivant l'exercice) et l'équilibre du compte administratif.

Lorsque l'une de ces règles particulières n'est pas respectée, le préfet saisit la chambre régionale des Comptes (CRC) selon une procédure aux règles propres à chaque cas, alors traité par le préfet selon les recommandations de la CRC.

3.3 Le recours à l'emprunt relève de la compétence de l'assemblée délibérante de la collectivité locale (article L.2122-22 du code général des collectivités territoriales (CGCT) pour les conseils municipaux, L.3212-4 du CGCT pour les conseils généraux et L.4221-1 du CGCT pour les conseils régionaux).

Le contenu de la délibération ou de la décision d'emprunt doit être suffisamment précis pour que le représentant de l'Etat dans le département soit en mesure d'apprécier la légalité de l'emprunt avant transmission du contrat d'emprunt lui-même. La délibération ou la décision d'emprunt doivent être exécutoires au moment de la signature du contrat d'emprunt, ce qui suppose leur transmission préalable au représentant de l'Etat et la transmission simultanée du contrat d'emprunt. L'appréciation de la légalité du contrat d'emprunt porte principalement sur la compétence du signataire, le respect du cadre fixé dans la délibération ou décision d'emprunt, et celui des règles générales d'ordre public économique, notamment la loi n° 66-1010 du 28 décembre 1966 relative à l'usure, précisée par le décret du 4 septembre 1985. Les annuités d'emprunt (remboursement du capital et intérêts) constituent des dépenses obligatoires, susceptibles de faire l'objet des procédures d'inscription et de mandatement d'office prévues par les articles L.1612-15 et L.1612-16 du CGCT. Les crédits contractés par les collectivités locales sont aujourd'hui banalisés pour l'essentiel et s'inscrivent donc dans le droit commun. Les emprunts peuvent être librement souscrits à taux fixe, révisable ou variable. L'encadrement des taux (arrêtés du 24 mars 1972), l'interdiction des taux indexés (circulaire du 31 mai 1953) et la référence à des conventions types ont aujourd'hui disparu.

3.4 De manière générale, l'Etat n'intervient pas dans la gestion des collectivités locales, en vertu du principe de la libre administration des collectivités locales en France. Le budget des collectivités locales doit être présenté et voté en équilibre. Si tel n'est pas le cas, des procédures permettant d'augmenter les recettes (hausse de la fiscalité, réduction des dégrèvements...) ou de diminuer les dépenses sont proposées par la chambre régionale des comptes saisie par le préfet. Dans des cas très marginaux (10 cas sur 36.600 communes en 1997) et pour lesquels toutes les possibilités de rééquilibrage du budget par diminution des dépenses et augmentation des recettes ont été épuisées, les communes confrontées à des difficultés financières peuvent bénéficier de subventions exceptionnelles, conformément à l'article L.2335-2 du CGCT qui prévoit que « des subventions exceptionnelles peuvent être attribuées par arrêté ministériel à des communes dans lesquelles des circonstances anormales entraînent des difficultés financières particulières ». Ces crédits sont ouverts au chapitre 41-52 du budget du ministère de l'Intérieur. Cependant, ces subventions ne sont attribuées qu'en cas de déficit incompressible de la section de fonctionnement du budget de la commune et après examen préalable par la chambre régionale des Comptes, saisie par le préfet, de la situation de la collectivité.

S'agissant de difficultés financières causées par un sinistre exceptionnel touchant les infrastructures communales, des subventions peuvent être allouées sur le chapitre 67-54 du budget du ministère de l'Intérieur afin d'aider les collectivités locales à réparer les dégâts causés par une catastrophe publique.

4. Flexibilité en matière de gestion

4.1 L'article 41 de l'ordonnance indique que "les dépenses du budget général font l'objet d'un vote unique en ce qui concerne les services votés, d'un vote par titre et à l'intérieur d'un même titre par ministère, en ce qui concerne les autorisations nouvelles". Il faut ainsi distinguer pour le vote du Parlement les services votés qui correspondent au renouvellement des crédits de l'exercice antérieur, ne sont pas spécialisés dans la loi de finances et donnent lieu à un seul vote global et les autorisations nouvelles qui correspondent aux crédits supplémentaires accordés (ou retirés par des mesures nouvelles négatives) aux services. Le vote intervient par titre et par ministère. Dès la promulgation de la loi de finances, le gouvernement prend des décrets portant répartition par chapitre pour chaque ministère des crédits ouverts. Il s'agit pour lui d'un « compétence liée » : les décrets de répartition se bornent à reprendre la ventilation des crédits figurant dans les documents annexes (les « bleus » des ministères) qui

accompagnent le projet de loi de finances, en prenant en compte les modifications introduites lors des débats budgétaires.

4.2 Des modifications de la répartition des crédits en cours de gestion sont possibles. Elles sont autorisées, principalement, par l'article 14 de l'ordonnance 59-2 du 2 janvier 1959 portant loi organique relative aux lois de finances qui dispose que « des transferts et des virements de crédits peuvent modifier la répartition des dotations entre les chapitres. (...) ». Ces transferts modifient la détermination du service responsable de l'exécution de la dépense sans modifier la nature de cette dernière. Ils sont autorisés par arrêté du ministre des finances. Les virements conduisent à modifier la nature de la dépense prévue par la loi de finances. Ils peuvent être autorisés par décret pris sur le rapport du ministre des finances sous réserve d'intervenir à l'intérieur du même titre du budget d'un même ministère et d'être maintenus dans la limite du dixième de la dotation de chacun des chapitres intéressés.

4.3 Une externalisation est tout à fait envisageable et est pratiquée de plus en plus fréquemment par les administrations publiques pour des services qui ne requièrent pas de précautions particulières de leur confidentialité ou leur caractère d'ordre public. Cette démarche doit se faire dans le respect des textes applicables et, notamment du Code des marchés publics.

4.4 Les reports de crédits sont une exception au principe de l'annualité budgétaire, le principe étant que les crédits ouverts au titre d'un budget ne créent aucun droit au titre du budget suivant. L'article 17 de la loi organique organise cependant les techniques budgétaires qui permettent de prolonger la validité d'un crédit non utilisé au-delà de l'année pour laquelle il a été voté. Le mouvement de crédits correspondant est opéré par arrêté du ministre des Finances.

La loi organique distingue nettement deux cas de reports selon la catégorie des crédits : les crédits de paiement non consommés affectés aux opérations en capital exécutées par l'État ou destinés aux subventions d'investissement sont reportés. Une dotation d'un montant égal à celui des crédits disponibles est ouverte en sus des dotations de l'année courante. Ce mouvement revêtant un caractère automatique, les ministres ont la faculté, avant l'intervention du report et dans la limite des deux tiers des crédits disponibles, d'engager et d'ordonnancer des dépenses pour assurer la continuation des opérations en cours.

Les crédits non consommés affectés aux dépenses ordinaires (fonctionnement, interventions) peuvent, sous certaines conditions, être reportés. La loi organique établit deux sous-ensembles à l'intérieur de cette catégorie : peuvent être reportés les crédits inscrits à des chapitres dont la liste limitative figure en annexe à la loi de finances (annexe dite "état H"). La totalité du crédit disponible sur ces chapitres peut être reportée, sans autre condition que d'opportunité, appréciée par le ministre des Finances. Peuvent également donner lieu à report, sous certaines conditions, les crédits de chapitres ne figurant pas sur cette liste. Dans ce cas, seuls les crédits correspondant à des dépenses effectivement engagées, mais non encore ordonnancées peuvent être reportés, et ce, à la condition supplémentaire que leur montant ne dépasse pas le dixième de la dotation du chapitre intéressé.

Les reports de crédits ne font pas l'objet d'un vote du Parlement, mais sont autorisés par un texte d'ordre réglementaire. La masse des crédits reportés pour une année représente, en moyenne, 3 per cent des crédits ouverts.

4.5 L'ordonnance organique du 2 janvier 1959 a fixé des modalités permettant de procéder à des ajustements de crédits en cours de gestion. En ce qui concerne la faculté pour les gestionnaires d'obtenir des avances sur des ouvertures de crédits futurs, la procédure du décret d'avances permet d'ouvrir, dans les cas d'urgence énumérés dans l'ordonnance de 1959, des crédits additionnels à ceux de la loi de

finances. Les décrets d'avances sont, le plus souvent, accompagnés soit d'arrêtés d'annulation de crédits d'un montant équivalent soit de la constatation effective de recettes supplémentaires par rapport à la loi de finances de manière à ce que l'équilibre général demeure inchangé.

4.6 Le Parlement autorise annuellement la limite en nombre d'emplois budgétaires que ne doivent pas dépasser les ministères. A l'intérieur de cette limite et dans le cadre des orientations gouvernementales pour la politique en matière d'emploi public, chaque ministre conduit sa propre politique de recrutement au sein de son administration. Quant aux conditions d'emploi et de rémunération des agents publics, elles relèvent pour une part de mesures générales (statut des fonctionnaires, cadrages salariaux) et pour une autre part de règles propres à chaque catégorie de personnel (titulaires, non titulaires, ouvriers d'Etat, militaires) et en leur sein à chaque niveau hiérarchique et fonctionnel (agents de catégories A, B, C, agents techniques ou administratifs).

5. Comptabilisation sur la base de l'exercice et budgétisation

5.1 L'Etat en France applique le système de la gestion aménagée : les comptes de l'Etat sont présentés en encaissements/décaissements : les recettes fiscales sont encaissées jusqu'au 31 décembre, les dépenses et les recettes non-fiscales peuvent être enregistrées, dans certains conditions, jusqu'au 7 février.

Les entreprises publiques appliquent le plan comptable général (système de l'exercice), les établissements publics également (plan comptable général pour les EPIC, instruction particulière proche du plan comptable général pour les EPA).

Toutes les opérations du budget de l'Etat (y compris les intérêts sur la dette) sont enregistrées sous le système de la gestion. Il en est de même pour les dépenses sociales, y compris les charges de pensions.

5.2 L'Etat ne compte pas modifier à ce stade son système comptable : la seule innovation à signaler est le raccourcissement d'un mois de la période complémentaire effectué sur les exercices 1995 et 1996, celle-ci étant ramenée du 8 mars au 7 février. Un raccourcissement supplémentaire est en cours d'expertise, qui pourrait ramener le terme de la période complémentaire au 31 janvier.

Par ailleurs, une mission a été créée pour étudier les conditions d'adaptation pour l'Etat des principes de la comptabilité patrimoniale, dans le respect des contraintes du futur SEC95. Un rapport préliminaire devrait être rendu en mai 1998 sur ce sujet.

5.3 le système de la gestion est appliqué à l'Etat. Mais les établissements publics et les collectivités locales ont recours au système de l'exercice

5.4 les comptes sont établis annuellement et soumis au contrôle de la Cour des comptes

5.5 Il n'est pas prévu de valoriser les éléments d'actifs qui n'ont pas une valeur marchande.

5.6 Les normes comptables publiques sont établie par les pouvoirs publics après consultation du Conseil national de la comptabilité, pour s'assurer notamment de leur compatibilité avec les besoins de la comptabilité nationale.

5.7 Le projet de budget est présenté au Parlement sur la base de la gestion et approuvé dans cette forme. Toutefois, le compte de résultats et le bilan de l'Etat sont produits à l'occasion de la loi de règlement par laquelle le Parlement approuve l'exécution de la loi de finances de l'année précédente.

6. Budgétisation des opérations en capital

6.1 Les ouvertures de crédits sont réparties en sept titres présentés et votés simultanément dans la loi de finances. Les dépenses ordinaires sont groupées sous quatre titres dont le titre III (Dépenses de personnel et de matériel applicables au fonctionnement des services). Les dépenses en capital sont groupées sous trois titres dont le titre V (Investissements exécutés par l'Etat) et le titre VI (Subventions d'investissement accordées par l'Etat).

6.2 L'ordonnance organique du 2 janvier 1959 réaffirme les quatre « grands principes » du droit budgétaire français (l'annualité, l'unité, l'universalité et la spécialité) et organise leur mise en oeuvre. Il en est fait quotidiennement application dans les actes de gestion de l'Etat et la Cour des Comptes comme le Conseil Constitutionnel veillent à ce qu'ils soient strictement respectés.

6.3 Le budget de l'Etat distingue les dépenses ordinaires des dépenses en capital. Ces dernières sont groupées sous trois titres : les investissements exécutés par l'Etat (titre V), les subventions accordées par l'Etat (titre VI) et les dommages de guerre (titre VII). Le titre V classe les investissements par secteur d'activité. Il est composé de chapitres qui désignent plutôt des natures de dépenses et qui retracent les immobilisations. Ces chapitres sont décomposés le plus souvent par service. Certaines immobilisations peuvent parfois apparaître sur le titre III consacré aux moyens de fonctionnement. Il s'agit principalement de certaines dépenses d'informatique ou de mobilier et des véhicules automobiles. Le titre VI classe également les subventions d'investissement par secteur d'activité. Il est composé de chapitres, en général décomposés par programmes, dispositifs et actions. Les dépenses en capital comportent des investissements immatériels. Il en est ainsi dans le secteur de la recherche.

6.4 Le budget de fonctionnement ne comprend pas de charges inhérentes à l'utilisation des équipements, hormis les dépenses d'entretien courant et, bien entendu, les locations quand le propriétaire est distinct de l'Etat. A titre exceptionnel, lorsque l'investissement est financé par crédit-bail, les charges correspondantes s'imputent sur les crédits de fonctionnement.

6.5 Les dépenses de fonctionnement et d'investissement sont toutes financées sur crédits budgétaires. En effet, le principe d'universalité qui figure à l'article 18 de l'ordonnance organique du 2 janvier 1959 prévoit que l'ensemble des recettes assure l'exécution de l'ensemble des dépenses, les unes et les autres étant imputées à un compte unique, le budget général.

6.6 L'autorisation budgétaire délivrée par le Parlement est limitée dans le temps. L'année budgétaire française coïncide avec l'année civile. Le principe de l'annualité est affirmé à deux reprises dans l'ordonnance organique du 2 janvier 1959 qui prévoit expressément, néanmoins, une dérogation au principe d'annualité pour les dépenses d'investissement qui s'exécutent sur plusieurs années. Les crédits qui concernent les dépenses d'investissement font donc l'objet d'une double autorisation, l'une pluriannuelle : l'autorisation de programme, l'autre annuelle : le crédit de paiement. L'autorisation de programme permet à l'ordonnateur d'engager financièrement l'Etat, sur plusieurs années, pour la totalité de l'opération à réaliser. Les autorisations de programme constituent la limite supérieure des dépenses que les ministres sont autorisés à engager pour l'exécution des investissements prévus par la loi. Elles demeurent valables sans limitation de durée jusqu'à ce qu'il soit procédé à leur annulation. Chaque année, l'autorisation de programme est assortie de crédits de paiement pour la part du programme qui sera

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exécutée dans le cadre de l'exercice budgétaire. Ces crédits de paiement sont reportables sur l'année suivante.

GERMANY

1. Fiscal Performance

1.1 Please outline the government's fiscal performance in the last fiscal year and the outlook for the current fiscal year, in nominal terms and as a percentage of GDP.

Public authority budget

According to preliminary results, in 1997 the public authority budget closed with a deficit of DM 94 ½ billion. Compared with 1996 this represents a reduction in the deficit of DM 24 billion; this figure is, of course, based on all sectors of the public authority budget, but a good 60 per cent of it is attributable to the performance of the federal budget.

In 1997 expenditure sank by one per cent to DM 1,174 billion. Thus the consolidation process has continued: since 1994 the average annual rise in expenditure in the public authority budget has been only ¾ per cent. In this way we have achieved our objective of keeping growth in expenditure significantly below the growth of the nominal gross domestic product. The growth rates for the major types of national expenditure were on the decline in 1997, and were even negative except for civil and military service pensions and payments on interest service.

In 1997 revenue was up by 1 ½ per cent on the previous year, reaching DM 1,080 billion. Slight drops in the revenue on current account were more than compensated by other high revenue.

Public sector

In the calculation of national accounts data relevant to the Maastricht deficit criterion (according to the European system of integrated economic accounts), in 1997 the public deficit was 2.7 per cent of gross domestic product.

The consolidation is being continued. Strict fiscal responsibility at all levels of government will enable us to further reduce the deficit quota to 2 ½ per cent of GDP in 1998. In this the German federal government will draw closer to its goal of bringing government spending back down to the rate which obtained before reunification, after having reduced it significantly from 50.0 per cent of GDP to 48.8 per cent in 1997. The regional and local authorities have already achieved this goal in their expenditure with a ratio of 29.6 per cent of GDP (1989: 30.1).

Tax and social security ratio ¹⁾

Year	Tax ratio	Social security ratio
	- in per cent -	
	- without new Länder -	
1960	23.0	33.4
1970	24.0	36.6
1980	25.9	42.8
1990	23.6	40.6
	- including new Länder -	
1996 ²⁾	23.1	43.0
1997 ²⁾	22.6	42.7
1998 ³⁾	22 ½	42 ½

1) total taxes and social charges as a percentage of gross domestic product

2) provisional actual results

3) estimate of the 1998 annual economic report

Government spending ratio ¹⁾

Public-sector expenditure (central and local government and social security)
in per cent of gross domestic product

Year	total ¹⁾	Public-sector expenditure	
		including:	
		central and local government ¹⁾	social security ¹⁾
		- without new Länder -	
1960	32,9	23.7	9.2
1970	39.1	27.9	11.2
1980	49.0	33.0	16.0
1990	46.1	30.7	15.4
		- including new Länder -	
1996 ²⁾³⁾	50.0	30.6	19.4
1997 ²⁾³⁾	48.8	29.6	19.2
1998 ⁴⁾	48		

1) without clearing transactions (calculated according to the so-called burden principle)

2) provisional actual figures, including hospitals

3) effect of reclassifying child benefit from expenditure to revenue side approx. ½ per cent of GDP

4) estimate of the 1998 annual economic report

Federal budget

The 1997 federal budget stood for a consistent policy of limiting government expenditure in connection with the efforts to achieve fundamental structural reforms. In spite of the considerable burden placed on

public-sector budgets by the continuing unemployment, due to strict spending discipline the 1997 budget again contributed to lowering the government spending ratio. In contrast to the actual yearly average unemployment figure of almost 4.4 million, the 1997 federal budget passed in December 1996 assumed there would be a good 400,000 fewer jobless. This caused a lot of extra spending for the labour market and corresponding revenue shortfalls. At the same time lower tax revenues, which mainly resulted from refunds for previous refund periods, put a strain on the federal budget.

Besides that, in 1997 as well the federal budget had to deal with considerable special fiscal policy burdens from past years, as for example unification-related expenses, the second stage of the railway reform, the end of the coal subsidy charge, the exemption of subsistence income from taxation and the new, more generous system of family tax relief and benefits.

The final total result of the 1997 federal budget was as follows:

	actual 1997 figures
	- billion DM ¹⁾
Expenditure	441.9
- change (%) ²⁾	(- 3.0)
Revenue	
1. tax revenue	331.1
2. administrative and coinage revenue	47.1
3. net borrowing	63.7

1) discrepancies due to rounding

2) compared with actual 1996 expenditure of DM 455,6 billion

1.2 Please outline the government's medium-term fiscal policy objectives, in nominal terms and as a percentage of GDP.

The key objective of the federal government's medium-term fiscal policy strategy is to bring the government spending ratio by the year 2000 back down to the level achieved before reunification of about 46 per cent (1995: 50.7 per cent, 1996: 50.0 per cent, 1997: 48.8 per cent). In line with our "symmetrical fiscal policy", the leeway thus gained will be used to reduce public-sector deficits and lower the tax and social security ratio.

In order to successfully implement the symmetrical fiscal policy, we need strict spending discipline at all levels of government. The rise in state spending must be kept at a level significantly lower than the growth rate of nominal GDP. Over and above that, structural reforms are indispensable.

2. Role of the legislature

2.1 Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?

While the federal government has the so-called budget initiative, that is, the authority and obligation to introduce the draft budget to the lower house (Bundestag) of the German Federal Parliament, it is the

parliament which has the exclusive power to adopt it, and in this it is bound only by the budget regulations - e.g. by the rule on limiting borrowing pursuant to Article 115 of the Basic Law.

In practice, however, parliament's right to approve the budget is restricted by the fact that most of the expenditure it provides for (about 80 to 85 per cent) is occasioned by obligations under laws or treaties. In the case of such expenditure, the only thing the legislature can do is to check whether the estimates contained in the draft budget are plausible.

A large portion of these legal obligations is based on non-budget laws (e.g. laws involving the disbursement of funds in the social sector). The parliament can reduce expenditure in these areas by changing the relevant laws.

2.2 *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years. Does the legislature take a more active role in the budget process now than it did 10 years ago? If so, why?*

Almost without exception, it is only after intensive consultations have taken place in the parliamentary bodies responsible that the budget is passed. The details are worked out not so much during the readings in the Bundestag or the plenary sessions of the upper house (Bundesrat) of the German Federal Parliament but rather in the meetings of the budget committee of the Bundestag and the "rapporteur talks" leading up to them.

Rapporteur talks usually take place after the draft budget has been presented to parliament and before the committee has started considering it. In these talks the members of parliament (both from the government and from the opposition parties) sitting on the committee who are responsible for the respective sections (departmental budgets) - known as "rapporteurs" - discuss the draft budget with officials from the ministries and from the Budget Directorate-General of the Federal Ministry of Finance. After these talks the so-called "rapporteur proposals" are formulated, that is, the proposals put forward by the *rapporteurs* for amendments to the draft budget. These proposals include not only those unanimously supported by all the groups involved, but also those which are advanced only by the government or by the opposition.

These *rapporteur* proposals form the basis for the discussion of the departmental budgets in the budget committee, where additional amendments may very well be called for.

Since the federal budget is subdivided into very detailed categories, the number of amendments proposed in the parliamentary deliberations is necessarily quite large, since a proposed amendment normally refers to a specific budget item.

In the course of the budgetary consultations in the budget committee of the Bundestag in recent years, the following amounts of amendments have been adopted to the government's draft:

Budget for the year	1996	1997	1998
		- DM billion -	
Revenue			
Increases	+ 45.2	+ 12.0	+ 17.2
Reductions	- 45.9	- 12.3	- 21.4
Balance	- 0.7	- 0.3	- 4.2
Expenditure			
Increases	+ 10.0	+ 8.6	+ 6.4
Reductions	- 10.7	- 8.9	- 10.6
Balance	- 0.7	- 0.3	- 4.2
Proportion of amendments in total estimates of the government's draft in %			
Revenue	20.2	5.5	8.4
Expenditure	4.6	4.0	3.7

In addition, for the 1997 budget the opposition proposed amendments totalling DM 14.2 billion on the expenditure side and DM 3.7 billion on the revenue side which were not adopted.

The amendments proposed in the course of the parliamentary consultations on the 1998 federal budget covered a total of 43 revenue estimates and 480 expenditure estimates (of a total of 1,065 revenue estimates and 7,065 expenditure estimates). Besides that, the opposition proposed 259 amendments, which were not passed, amounting to DM 161.7 million on the revenue side and DM 9,761.0 million on the expenditure side.

The role played by the legislature in the budgetary process has not changed much in the last ten years. Annual variations in the volume and number of amendment proposals only reflect peculiarities of the respective budget and do not indicate any important changes in the legislature's behaviour.

In the last few years, however, there has been a certain increase in the number of individual appropriations affected by amendment proposals due to the budget moratorium imposed by the governing coalition. This moratorium provides that any proposed increases in expenditure in individual items must be at least offset by savings (or increased revenue) somewhere else so that the total amount of the budget, and in particular the borrowing requirement, remains the same.

2.3 Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?

In the Federal Republic of Germany, the constitution of the entire nation (the "Basic Law"), shares government functions out among the federation and the Länder in a certain fashion. Thus the Basic Law divides tasks between the federal government on the one hand and the Länder on the other, and correspondingly divides up the expenditure and the tax revenue. From this general rule of the division of tasks, expenditure and revenue follows the principle set forth in Article 109 paragraph 1 Basic Law that in their budget management the Federation and the Länder shall be autonomous and mutually independent. Budget management includes fiscally responsible planning, use, accounting and monitoring of budget expenditure and the budget revenue available to cover it including borrowing; it also includes administering the assets and the debts as well as all measures which follow from the activities of public authorities connected with the budget in bodies under private or public law.

The federation and the Länder all pass their own budget laws. As a rule the federal Budget Act contains over 30 provisions which may be classified into the following categories:

- determination of all the revenue and expenditure estimated in the budget
- authorisation to borrow
- authorisation to give guarantees
- arrangements for the operation of the budget
- legal bases for revenue and expenditure
- arrangements for entry into force
- factual and temporal framework

The principle of separate budgets for the federation and the Länder is not an absolute one. It applies within the whole context of constitutional standards. Thus the federation and the Länder have a constitutional responsibility to take account of the requirements of macroeconomic equilibrium in their budget management. This does not happen by itself, rather, the statutory bodies set up for this purpose, namely the Economic Policy Council and the Financial Planning Council, have to draw up unified objectives; it is the federal government which has the responsibility for co-ordinating this process.

2.4 What are the key steps taken by the legislature in considering the budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable? Do heads of government ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?

The draft budget prepared by the Federal Ministry of Finance is adopted by the federal government. Next the draft Budget Act and the budget are presented simultaneously to the Bundesrat and the Bundestag as stipulated in Article 110 paragraph 3 of the Basic Law. This is different from the normal legislative procedure, due to the urgency of the budget.

The Bundesrat states its position within six weeks. This position - together with a response by the federal government - is conveyed to the Bundestag. Thus via the Bundesrat the Länder can exert their influence on the budget.

While the Bundesrat is deliberating, the first reading is taking place in the Bundestag. In his budget speech the Federal Minister of Finance presents the reasoning behind the government's budget. Members of parliament of the parties represented in the Bundestag seldom fail to state their positions on the budget.

Finally the bill is passed on to the budget committee of the Bundestag, which checks all the estimates and which may propose amendments. The budget committee's decisions are prepared by several committee members (*rapporteurs*). The *rapporteurs* discuss the government's draft budget with representatives of the ministries affected, the Federal Ministry of Finance and the Federal Court of Audit. They may then propose amendments to the government's draft. The *rapporteurs'* proposals form the basis for the deliberations in the budget committee and are usually accepted without discussions. They are discussed in the budget committee only when the *rapporteurs* have been unable to reach agreement on individual points or if a fundamental point is at issue which should be discussed in the budget committee. The budget

committee invites the appropriate minister to such discussions, and he supplies the committee with the necessary information. The committee's meetings are not as a rule open to the public.

The second reading in the Bundestag is not held until the Bundesrat has stated its position. This is to ensure that the Bundestag may have an opportunity to take account of the Bundesrat's ideas.

In the second reading the *rapporteurs* of the budget committee present to the plenary session of the Bundestag the results of the committee's discussions. This starts the discussion of the departmental budgets. The Bundestag must decide separately on each individual departmental budget.

In the third reading, the motions to amend the departmental budgets are dealt with and the motions for resolutions are decided on, and then the Budget Act is passed by the Bundestag.

The Budget Act adopted by the Bundestag (including the budget) then goes back to the Bundesrat for the "second round".

If the Bundesrat does not agree to the Act, it may demand that it should be passed to the mediation committee (cf. Articles 77 and 78 of the Basic Law). If the latter recommends that the bill should be amended, the Bundestag must consider it again. After that the Bundesrat may lodge an objection, but this can be overridden by the Bundesrat with a corresponding majority.

2.5 *What resources (e.g., staff) are available to the legislature for reviewing the budget?*

The Bundestag and in particular the budget committee have general secretarial support available but over and above that they have no experts available in the parliamentary administration specially dedicated to dealing with budgetary issues. However, the parties represented in parliament do have such qualified personnel on their staff to a limited extent.

The executive branch of government has the obligation to do a lot of the preliminary groundwork for the committees of the Bundestag and in particular for the budget committee to help it with its discussions, depending on the nature of the case involved (producing reports; providing government representatives to be questioned by the committee) (cf. question No. 2.4).

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditure items? If so, please describe.*

In principle the Bundestag could pass a resolution before the debate imposing an aggregate expenditure ceiling on itself, but in practice this option is never utilised.

However, in the course of the parliamentary consultations a certain commitment is made by means of the vote on the procedure by the budget committee (for details cf. questions Nos. 2.2 and 2.4).

In the great majority of cases, the adjustments adopted in the budget committee are confirmed in the second and third debates in the Bundestag.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes? How is this information used by the legislature?*

Together with the draft budget, the federal government presents a so-called financial report.

This report explains the government's budget bill in its fiscal and macroeconomic context. It contains details on the state of the economy, the aggregate public-sector budget, the estimates of future tax revenue, the EU's finance activities, the financial relations between the federation, the Länder and the municipalities as well as on the draft budget and the federation's multi-year financial plan.

In addition, it is the federal government's duty to report to the parliament on all matters concerning the budget and fiscal policy. This the federal government does not only when it presents the draft budget, but also during the entire fiscal year. Thus information on programme outputs or outcomes is as a rule presented to parliament (budget committee or other technical committee) when it is requested or in connection with the release of frozen budget appropriations. The information presented by the federal government is discussed in the competent parliamentary bodies and may be used in the budget drafting procedure as well as in the operation of the budget when the budget committee decides on whether to release frozen appropriations.

2.8 What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programmes)?

German budget law follows the principle that the budget must be unified and complete. This means that the federal budget passed by the legislature must contain all the revenue and expenditure of the federation regardless of its legal basis. (The same applies respectively to the budgets of the Länder).

As already explained in the answer to question No. 2.1, more than 80 per cent of the expenditure appropriated in the federal budget is based on legal obligations. In the 1998 federal budget with a total volume of DM 456.8 billion, the appropriations for social expenditure alone, for example, amount to approx. DM 176 billion, or 38 ½ per cent of total expenditure. This expenditure is occasioned by laws which involve the disbursement of funds and which thus limit the legislature's leeway in making the budget.

2.9 Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have there been in each of the past three years?

Viewed over the entire history of the Federal Republic of Germany, supplementary budgets at federal level have been the exception rather than the rule. Since 1983 ten supplementary budgets have been produced, three of them in 1990 alone in the wake of German reunification. Since 1995 it has been only in 1997 that a supplementary budget was produced.

3. Fiscal relations with lower levels of government

3.1 Are there any formal mechanisms in place for consultation with lower levels of government for establishing national fiscal strategy? If so, what are they?

Under Article 109 paragraph 1 Basic Law the federation and the Länder shall be autonomous and mutually independent. Article 109 paragraph 2, however, also obliges the federation and the Länder to take account of the requirements of macroeconomic equilibrium. Under constitutional law, the municipalities and associations of municipalities are components of the Länder. Article 28 paragraph 2 Basic Law guarantees the municipalities and associations of municipalities the right of self-government within the framework of their statutory functions.

Co-ordination of public-sector budgets takes place through the Financial Planning Council, which is made up of the Federal Ministers of Finance and Economics, the Land ministers responsible for finance and four representatives of the municipalities and associations of municipalities. The Deutsche Bundesbank regularly takes part in the consultations of the Financial Planning Council. The Financial Planning Council makes recommendations on how to co-ordinate the financial planning of the federation, the Länder, the municipalities and the associations of municipalities. It determines uniform hypotheses on which to base financial planning and establishes points of focus for the fulfilment of public functions in line with macroeconomic requirements.

In the last 15 years the recommendations of the Financial Planning Council have explicitly taken account of the objective of consolidating the public-sector budgets. Since 1996 the Financial Planning Council has recommended annual growth in expenditure of all told no more than 2 per cent in the medium term (used to be 3 per cent). By keeping the recommended growth in public-sector expenditure well below the growth of nominal gross domestic product the Financial Planning Council has thus been making an important contribution to reducing the ratio of public spending to GDP.

In connection with European Economic and Monetary Union, the Financial Planning Council makes sure that the deficit criterion of the Treaty of Maastricht is also taken into account when the budgets and financial plans are drawn up.

3.2 Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?

No.

3.3 Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?

No.

3.4 If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.

Federation and Länder are obligated to lend their support to any constituent part of the federal system of government which finds itself in an extremely difficult budgetary situation. In headnote No. 6 of its decision of 27 May 1992, the Federal Constitutional Court argued as follows: "If a constituent part of the federal system of government - whether it be the federation or a Land - finds itself in an extremely difficult budgetary situation, then all the other entities are obliged under the principle of the federal system of government to lend the affected entity aid in the form of co-ordinated measures to help it stabilise its financial situation."

In its decision of 27 May 1992 the Federal Constitutional Court also found that the Free Hanseatic City of Bremen and Saarland were in an extremely difficult budgetary situation. Under the terms of the Federal Consolidation Programme in 1993 it was decided that the federation would pay Saarland DM 1.6 billion a year and the Free Hanseatic City of Bremen DM 1.8 billion a year for the years 1994 through 1998 in the form of supplementary federal reorganisation grants. The Länder concerned have committed themselves to keep their expenditure growth below the maximum level recommended by the Financial Planning Council (2 per cent in 1998). Each year they must submit a report to the Financial Planning Council on the progress they are making in rehabilitating their budget.

4. Managerial flexibility

4.1 How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?

The draft budget submitted to the legislature attached to the budget act is divided into departmental budgets, which are further subdivided into chapters and titles. These titles represent the actual appropriation of funds for a particular purpose.

Departmental budgets and chapters are broken down predominantly according to the so-called "department principle". This means that they summarise the revenue and expenditure of a government department (at departmental level, for example departmental budget 12 "Federal Ministry of Transport" or departmental budget 14 "Federal Ministry of Defence") or an authority, agency, office or the like which is subordinate to the department (at chapter level, e.g. chapter 1216 Federal Aviation Office as a subordinate authority in the portfolio of the Federal Ministry of Transport).

The titles of which the chapters are composed form the actual budget appropriations and represent the funds approved for individual purposes such as wages and salaries, office fittings, rent, building management and travel costs. Some of these titles are accompanied by explanations in the printed copy of the budget which break the individual appropriation down further. These explanations, however, are as a rule of a merely informative character and are not binding.

To some extent these funds are allocated to special projects/programmes in so-called title groups within a chapter. Thus in each chapter expenditure for data processing is shown in such a title group separately from other non-personnel expenditure. However, there is no comprehensive breakdown of the estimates as to programmes within the chapters, nor are programmes summarised across chapters or departmental budgets.

Thus exact figures on the funding approved for individual ministries, authorities or groups of agencies may be obtained from the budget estimates, whereas the cost for individual programmes or projects often cannot be discerned directly from the budget.

The detailed division of funding estimates at the title level results in a relatively large number of individual estimates. Thus the 1998 budget passed by the Bundestag and the Bundesrat consists of 25 departmental budgets, divided into 201 chapters. All in all the printed version of the 1998 federal budget contains 8,130 revenue and expenditure titles, some of which are combined in 398 title groups.

There used to be even more: in recent years various trimming operations have reduced the number of individual estimates in the federal budget from an erstwhile high of more than 10,000 titles to the present level. In the interest of cost savings and efficient administration we plan for the near future another moderate reduction in the total number of individual estimates, without reducing the quality of information supplied by the budget as a whole.

While in the discussions at committee level individual title estimates are also debated and votes are taken on individual estimates, in the final discussions in the Bundestag and Bundesrat only departmental budgets or the entire budget is voted on.

In the 1998 Budget Act more flexibility was introduced for the so-called "administrative chapters" to enable ministries to manage their expenditure more efficiently in these areas. An annex attached to the Budget Act shows which chapters of the federal budget are considered administrative chapters. Mainly concerned are federal ministries and authorities. Operational chapters such as road construction, the armed forces or research are not included in the flexibility programme.

The objective of this operation is to view the flexible areas in future more in their totality and less broken down into individual estimates. In these areas the budget negotiations and the parliamentary consultations should essentially concentrate on total amounts, while the details can continue to be left mostly to the responsibility of the ministries.

4.2 Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?

Budgetary funds may be transferred from one expenditure item to another within a programme:

- a) The programme expenditure is budgeted in a single title: Transfer to another expenditure item is possible in principle unless the explanations on this title provide for obligatory allocations.
- b) The programme expenditure is budgeted in more than one title: Transfer to another expenditure item (= title) is only possible if virement is explicitly permitted by corresponding arrangements in the Budget Act or in the budget itself. Expenditure may be declared eligible for virement if there is an administrative or substantive connection or if it is in the interests of efficiency and economy.

There are also other cases in which virement is possible under Section 20 Federal Budget Code, but these do not apply to programme expenditure insofar as this is for grants and subsidies which are not for the purpose of investment.

When preparing the budget, the legislature allows scope for reallocations by permitting virement in the Budget Act or in the budget itself. Without such authorisations, reallocations are generally not possible in the course of the execution of the budget.

There are no special prohibitions against reallocating appropriations from transfer programmes to titles with administrative expenditure. However, the precondition for the admissibility of such reallocations is always the presence of corresponding authorisations (virement remarks) in the budget or the Budget Act, which under certain conditions may be made pursuant to Section 20 paragraph 2 Federal Budget Code.

4.3 Can managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?

Services currently performed by authorities may be contracted out within the limits of the overall personnel administration concept and the funds available. Any decisions to contract out must be based on economic efficiency studies.

4.4 If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?

In general, investment expenditure and expenditure from specifically earmarked revenue which is not used may be carried over to the next fiscal year. On this subject, Section 19 paragraph 1 Federal Budget Code says the following:

"(1) Investment expenditure and expenditure from specifically earmarked revenue may be carried over."

Pursuant to Section 19 paragraph 1 sentence 2 Federal Budget Code other expenditure may be declared eligible for carry-over if this is in the interests of efficiency and economy.

However, under these provisions, funds must be budgeted in the departmental budget in order to cover expenditure to be carried over. This means that other expenditure budgeted must be saved in the fiscal year (i.e. not spent) in the amount of the additional expenditure.

The entire amount not spent in the current fiscal year may be carried over.

On the basis of the above mentioned provisions, from 1998 on the administrative expenditure of the federation, i.e. the annually recurring expenditure, may be carried over into the next fiscal year insofar as it is not used up in the year ending.

No virement is required for carried-over administrative expenditure. The Federal Minister of Finance makes provision centrally in the federal budget for covering any extra expenditure which may arise from the carrying-over.

4.5 Are there any arrangements in place where managers may borrow against future appropriations? If so, please describe applicable maximums and other conditions.

The arrangement whereby the federal government may borrow against future appropriations is found in Section 2 paragraph 3 of the 1998 Budget Act.

"(3) The Federal Ministry of Finance shall be authorised from October of the fiscal year in anticipation of the borrowing authorisation of the next fiscal year to borrow up to 6 per cent of the amount determined in Section 1. These borrowed funds shall be set off against the borrowing authorisation of the next fiscal year."

The above mentioned regulation limits the additional credit authorisation to no more than 6 per cent of the expenditure authorisations of the 1998 federal budget. Funds borrowed on the basis of the additional credit authorisation may only be used for expenditure of the next fiscal year.

The additional borrowing authorisation is limited to the Federal Ministry of Finance. The Federal Ministry of Finance may borrow additional funds for the entire area of federal expenditure. The individual spending agencies are not entitled to this additional authorisation for their part of the budget.

4.6 Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? What flexibility do managers have in setting the wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.

Every year the legislative branch sets so-called staffing schedules which show the highest permissible number of staff which may be employed in the various government departments including their pay

schedules (salary groups). The staffing schedules are binding. Under the Budget Act exceptions may be made only in the case of white-collar employees who are not established civil servants with the assent of the Federal Ministry of Finance. As a rule the Federal Ministry of Finance only gives its assent insofar as the provisions of labour law absolutely require a deviation from the established pay schedules of the staffing schedules (e.g. when employees have the right to advance to a higher pay grade).

Within his authority a manager may hire personnel as allowed in the budget. A manager may dismiss personnel in accordance with statutory provisions and collective bargaining agreements.

The personnel consists of established civil servants and other employees. The salaries and conditions of established civil servants are set by law, while for other employees they are negotiated in collective wage agreements, insofar as they are not also subject to statutory provisions. The manager has basically no flexibility in setting the salaries and other conditions of employment of his staff. The only exception is the option the manager has when paying established civil servants, soldiers and employees for special services to grant efficiency levels (only established civil servants) or efficiency bonuses, the amount and duration of which is regulated by law. As concerns the conditions of employment, the manager has the option of rearranging the daily working hours of his agency in agreement with the works council, provided the total working time as laid down by law is fulfilled.

Different rules apply to different categories of personnel. The pay and conditions of established civil servants are regulated by law, those of other employees by contractual agreements with management, insofar as they are not also arranged by law. There is one set of rules each for the group consisting of the established civil servants and for the group consisting of all other employees.

5. Accrual accounting and budgeting

5.1 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual-basis. Do some types of government organisations (e.g. agencies, enterprises) use accrual-basis whereas others do not? If so, please describe. Are certain transactions (e.g., interest on government debt, civil service pension plans) treated on accrual-basis whereas other transactions are not? If so, please describe.

The Federal Minister of Finance has to present a rendering of accounts to the Bundestag and the Bundesrat about all revenue and expenditure as well as about the assets and the debts in the course of the next fiscal year in order that the federal government may receive formal approval of its actions (Article 114 paragraph 1 Basic Law). This is done by drawing up the annual accounts (revenue and expenditure account, asset and liability statement) for the expired fiscal year (= calendar year).

In the revenue and expenditure account the estimates of the individual titles of the budget are compared to the respective actual revenue and expenditure and any significant deviations are explained. The asset and liability statement shows the assets, in particular the amount of and changes in equity participations and loans receivable as well as the amount of and changes in the federal debt.

The objective of the revenue and expenditure account is to document the proper implementation of the budget (= part of the parliamentary fiscal control: compliance with the parliamentary budget authorisations). This method of rendering accounts based on revenue and expenditure is not comparable to the profit and loss accounts (accrual accounting) used by businesses to determine the profit made or the loss suffered during the fiscal year. For the same reasons the public-sector asset and liability statement is not comparable to the balance sheet of an enterprise.

As a result of the difference in objectives between governmental accounting and that used by the private sector, the system of accounting used by the federal government is based on cash receipts and expenditure (= time of payment) principle of causation (= cost assignable to a business's productive activity in an accounting period).

Exemptions to this are formed by the federal undertakings (legally dependent, segregated parts of the federal administration) and the federal commercial enterprises, which aim to make a profit and are run according to the rules of commercial bookkeeping.

5.2 Has the government's basis of accounting moved from cash-basis to accrual-basis in the recent past? If so, please describe. Does the government have plans to move to accrual-basis in the near future?

According to the 1997 amendment to the Law on Budgetary Principles, since 1 January 1998 the federal and Land administrations have explicitly been allowed the option of instituting commercial bookkeeping and a commercial balance sheet in addition to the governmental accounting, and thus to determine the result for the year on the basis of costs and profits. Some of the Länder intend to make use of this in pilot projects.

The Federal Budget Code has also been amended to provide for cost accounting in suitable areas in order to facilitate efficient and effective performance of tasks.

6. Capital Budgeting

6.1 Are appropriations divided between separate company and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?

In the federal budget, capital expenditures and operating expenditures are consolidated in a single budget.

6.2 Has there been a change from having a capital budget to not having a capital budget, or vice versa, within the last 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?

No. Nor are there any plans to introduce an investment budget in the near future.

Please answer questions 6.7 - 6.12 if capital and operating expenditures are contained in a single consolidated budget.

6.7 Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they treated otherwise? Does this differ by type of capital expenditure (e.g., purchase of capital used by the government, grants to lower levels of government, physical and non-physical capital)?

The federal budget is divided according to organisational units into departmental budgets and these are sub-divided into chapters (Section 13 paragraph 2 Federal Budget Code). The departmental budgets contain the revenue, expenditure and authorisations for future commitments of a single administrative department, thus as a rule of a ministry with its subordinate authorities. All the revenue, expenditure and authorisations for future commitments of an authority generally constitute a chapter. Investment expenditure is part of this.

Within each chapter the expenditure is classified in terms of economic categories. These are based on a standard system of classification by object used by the federation and the Länder; it is a numerical system of classification which shows separately the investment expenditure as main groups. In the investment expenditure there is a main group for construction measures (all title numbers starting with 7) and a main group for other investment expenditure (all title numbers starting with 8). The system of classification by object subdivides the main groups at two levels (upper groups, groups), so that using ADP detailed information about different types of investment expenditure in the entire budget may be obtained. These include for example investment grants to other public-sector budgets, purchase of movable and immovable property as well as participation in enterprises.

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

There is no separate chapter for investment (cf. Question No. 6.7). In the aggregate budget (combined account of the budget items) and its annexes, however, investment expenditure is shown summarised both for each departmental budget and in detail for each group.

6.9 *Are there any separate (long-term) plans for capital expenditure (e.g., infrastructure development) that are used for reference in the annual budget process? Please give examples.*

Though there do exist at federal level plans for investment expenditure, these are not legally binding.

Thus there is for example a road construction plan or a joint general plan between federation and Länder in the field of university construction (under which federation and Länder split the costs of building and renovating universities including university clinics fifty-fifty), however these, viewed in isolation, are not by themselves legally binding.

Intentions are not manifested until certain medium or long-term measures have been precisely formulated and authorisations for funds to be spent in future years (so-called authorisations for future commitments) have been issued for them and are made use of in the course of the year. In this case the corresponding funding must be made available in the following years.

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g. by special earmarked taxes)? Please give examples.*

The principle of general coverage applies in German budgetary law. This principle states that all revenue shall serve as cover for all expenditure. Exceptions to this are possible only within narrow limits. They may be stipulated by law or provided for in the budget. Another exception are funds made available by third parties - e.g. the European Union - for specific purposes. An example of this are the investment grants made by the European Regional Development Fund to reinforce the German funding for the joint task "improving the regional economic structure" in eastern Germany.

There are laws earmarking revenue in the federal budget for investment in the following areas:

I. Transport:

- A. Through the Road Construction Financing Act in conjunction with the annual Budget Act, portions of the revenue obtained from the mineral oil tax are earmarked for road construction and repair and other transport purposes.

- B. Other portions of the mineral oil tax revenue (annually up to DM 3.28 billion) are earmarked under the Community Transport Financing Act for projects to improve the traffic conditions of the communities.
- C. In connection with the railway reform, it was stipulated by law that the federation should allocate to the Länder a portion of the mineral oil tax revenue (1998: DM 12.4 billion) for purposes of local public transport in the communities.

II. Residential construction: Under the provisions of the 2nd Housing Construction Act, return from housing construction loans and housing assistance loans (1998: DM 1.86 billion) shall be used to promote construction of low-income housing.

6.11 Does the operating budget include any charges for the use of capital (e.g., depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?

Pursuant to Article 110 Basic Law, Articles 8 II, 12 Budgetary Principles Law, 11 II Federal Budget Code, expenditure may be budgeted solely for the specific financial requirements of the respective fiscal year, i.e. the actual funding needed for specific purposes. Imputed cost elements have no place in the estimates and are not in accordance with the budgetary procedure, which is built around parliament's right to decide the budget.

Notwithstanding, the federal administration is at present introducing a system of standardised cost accounting which will serve as the internal accounting system for the authorities and which will include all the imputed cost items. This system is supposed to serve as an internal management tool for the authorities and to increase cost transparency, facilitate offsetting within an agency and between agencies and support both the drafting and the execution of the budget at the level of the individual authorities.

6.12 Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?

Under the maturity principle, only that revenue or expenditure may be budgeted which will actually result in cash flows during the fiscal year. The purpose of this principle is to make sure that the revenue in the budget is stipulated only for the expenditure of the current year. The government should use tax moneys only for the expenditure which is actually necessary.

The maturity principle therefore leaves no scope within the framework of the expenditure authorisations for binding plans spanning more than one year, as for example for a multi-year investment project. Therefore a further budgetary instrument was created: the authorisation for future commitment. The authorisation for future commitment may be used when an obligation has to be assumed which will not be fulfilled until some future year.

In a multi-year investment project, an authorisation for future commitment comprising the contractual volume on which the multi-year project is based is inserted into the budget. The expenditure resulting from the commitment are inserted into the budget in the coming fiscal years as they fall due.

HUNGARY

1. Fiscal Performance

(See Table 1. below: Main Characteristics of the General Government)

1.1 Please outline the government's fiscal performance in the last year and the outlook for the current fiscal year, in nominal terms and as a percentage of GM.

In 1997 faster than expected economic growth, the intensification of exports, progressively increasing accumulation, improvement of productivity, the increase of wages, expansion of consumption and the reduction of inflation was achieved without any adverse effect on economic equilibria. The financial position of general government was also kept within the limits of the predetermined goals.

The general government deficit - privatisation revenues excluded totalled at 4.6 per cent of GM. Of the sub-systems of the general government the deficit of the social security funds ended up at a position worse than expected. This, however, was offset by the improvement of the relative position of the rest of the subsystems.

1997 balance of the sub-systems (on GSF basis, privatisation revenues excluded)	Preliminary performance (HUF billion)	Preliminary performance as a percentage of GDP
Central budget	-342.1	-4.1
Social security funds	-49.8	-0.6
Extra budgetary funds	+9.7	0.1
Local governments	0.0 ³	0.0 ¹
Total general government	-382.2	-4.6

The primary balance of the general Government declined from the 4.3 per cent of 1996 to 3.6 percent. Revenue centralisation dropped from 48.1 percent in 1996 to 44.9 percent in 1997 while the ratio of redistribution remained more or less at the same level. In comparison with the 1996 GDP the ratio of consolidated primary revenues (from 46.3 percent to 42.7 percent) and expenditures (42.0 percent to 39.0 percent) improved. Also, the central budget's debt relative to GDP improved substantially (from the 72 percent in 1996 to 64 percent).

Outlook for the current fiscal year

In 1998 and thereafter such fiscal policy is and shall be required as will preserve the equilibrium improving effects of the stabilisation measures, promote sustained growth of the economy and enable harmonisation of the fiscal and the monetary policy.

The limits of the fiscal policy in 1998 will need to be realised along with stimulating investment, improvement of the standards of the performance of the tasks, provision for the required funds in parallel with a reduction - towards the internationally accepted levels - of the tax burden. The reduction of the general government deficit- of the level of redistribution of resources and of the state debt, continues. The leeway so outlined requires a properly differentiated subsidy policy. The priority tasks include the raising of pensions to provide for real growth, improvement of the conditions of the development of agriculture and rural development in a wider sense as well as of regional equalisation, for the improvement of law and order, security, legal protection of citizens and the preparations for the Euro-Atlantic integration.

Accordingly in 1998 the general government deficit shall not exceed 4.9 percent of GDP, a target identical with the one approved for 1997, the primary balance of general government as a percentage of GDP shall decline from the 3.6 percent of 1997 to 1.9 percent. The consolidated primary expenditures of general government shall increase by 13.2 percent over the 1997 level, ending up at about 1 percent 'm real terms. This fits in with the macro-economic leeway (inflation 13-14 percent, GDP 3-4 per cent up). The consolidated primary revenues increase by 8.4 percent. The revenue centralising and re-allocating role of general government declines (centralisation drops from the 44.9 percent of 11 997 to 42. 8 percent while the ratio of redistribution declines from 49.5 percent to 47.8 percent). To achieve a general government deficit that can be financed in the long run, the ratio of general government deficit relative to GDP continues in 1998 to decline from the 64 percent of 1997.

MAIN CHARACTERISTICS OF THE GENERAL GOVERNMENT

		Billion HUF				
		1994 actual	1995	1996 prel	1997 prel.	1998 approved
		tény	actual	actual	actual	
GENERAL GOVERNMENT						
1	Primary revenues	3 004.7	3 395.4	3 924.1	4 518.9	4 988.6
2	Primary expenditures	3 122.7	3 302.6	3 630.1	4 213.4	4 814.9
3	Primary balance (1-2)	-118.1	92.8	294.0	305.4	173.7
	Primary balance in % of GDP	-2.7	1.7	4.3	3.6	1.9
4	Privatization revenues	36.3	175.7	267.3	230.9	24.0
5	Interest revenues	46.5	43.4	125.2	183.7	129.1
6	Interest expenditures	295.7	509.0	631.8	871.4	766.7
	Interest balance (domestic+foreign+NBH)(5-6)	-249.2	-465.6	-506.6	-687.7	-637.5
7	Gross revenues (1+4+5)	3 087.5	3 614.5	4 316.6	4 933.4	5 141.7
8	Gross expenditures (2+6)	3 418.5	3 811.6	4 261.9	5 084.8	5 581.5
9	GFS balance (7-8)	-331.0	-197.1	54.7	-151.4	-439.8
10	GFS balance priv. revenues excluded (9-4)	-367.3	-372.8	-212.6	-382.2	-463.8
	in % of GDP	-8.4	-6.6	-3.1	-4.6	-4.9
12	Total consolidation within the General Government	764.9	817.3	858.7	945.3	1 115.4
	Consolidated primary revenues (1-12)	2 239.8	2 578.1	3 065.4	3 573.6	3 873.2
	Consolidated primary expenditures (2-12)	2 357.8	2 485.3	2 771.4	3 268.2	3 699.5
	Changes of consolidated primary revenues in comparison to the previous year (%)		115.1	118.9	116.6	108.4
	Changes of the consolidated primary expenditures in comparison to the previous year (%)		105.4	111.5	117.9	113.2
	Consolidated primary revenues in % of GDP ([1-12]/15*100)	51.3	45.9	44.8	42.7	41.4
	Consolidated primary expenditures in % of GDP ([2-12]/15*100)	54.0	44.3	40.5	39.0	39.6
	Interest balance (domestic+foreign+NBH) in % of GDP ([5-6]/15*100)	-5.7	-8.3	-7.4	-8.2	-6.8
13	Consolidated gross revenues priv. rev. excluded (7-12-4)	2 386.4	2 621.5	3 190.6	3 757.3	4 002.3
14	Consolidated gross expenditures (8-12)	2 653.6	2 994.2	3 403.2	4 139.5	4 466.1
	Consolidated balance of the General Government (13-14)	-367.3	-372.8	-212.6	-382.2	-463.8
	Revenue-centralisation (%)(13/15*100)	52.4	46.7	46.6	44.9	42.8
	Redistribution (%)(14/15*100)	60.8	53.3	49.7	49.5	47.8
	Gross Debt of the Central Budget	85.9	84.3	72.0	64.1	63.5
15	GDP	4 365	5 614	6 846	8 370	9 350

1.2 Please outline the government's medium-term fiscal policy objectives, in nominal terms and as a percentage of GDP.

By 1999-2002 such economic path shall be developed as will promote, or prepare the satisfaction of the Maastricht criteria.

Over recent years the re-distributory role of the state has dramatically declined - by 10 percent of GDP during the 1994-1997 period bringing it down to a level comparable to the average of the EU average. In countries with similarly developed market economies, however, this ratio is still lower so the diminishing of the role of the state should continue.

With respect to fiscal policy this means that the GFS deficit of the general Government relative to GDP should not be in excess of 4 per cent in 1999, in later years of 3.5 percent and in 2002 approximately percent. The declining inflation results in an interest balance declining relative to GDP as a result of which, keeping within a lower primary balance will also enable achievement of the above GFS deficit. Until 2001 this requires the achievement of a position yielding an approximately 2 percent primary surplus, as a percentage of GDP.

In order to achieve a general government deficit that can be financed in the long run the gross debt of the central budget declines by 2002 to below 55 percent of GDP. The revenue centralisation of the general government declines until 2000, from the level of 1997 it drops by 22.5 percent in 1998. The trend continues, though at a declining rate, and the ratio will stabilise at around 40 percent. The re-distributory role of general government will stabilise at 43-44 percent after 1999.

As a result of the characteristics of the growth path expansion of G1)-P in excess of absorption) and the international legal harmonisation requirements (111 the area of customs revenues) the growth of revenues continues to be smaller than that of GDP, though at a diminishing rate. On the other side this means a modest real increase of general government revenues which enables in the area of expenditures a preferential treatment of the priority areas that are to be undertaken a strategic perspective. It is a task for taxation policy to increase the efficiency of tax collection by expanding tax bases and by reducing tax rates and thereby to reduce the motives of taxpayers to hide revenues.

Within the relatively restricted leeway, however, it is still to be decided as to what extent the competitiveness of the business sector may be increased via the reduction of expenditures - and, consequently, of the tax burdens - and by the improvement of the efficiency of the public sphere which in turn 'requires additional outlays. As a result of the requirements accumulated in the various areas of general government, it is a realistic goal, in the medium run, to achieve an additional 2-4 percent cut of the consolidated primary expenditures from their 38 percent level to be achieved by the end of 1998, relative to GDP, by the end of the period in question. This, however, is to be achieved in a way as will increase the amounts used for accumulation within the structure of the expenditure side, at the expense of current expenditures.

2. Role of the Legislature

2.1. *Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?*

The power of the Parliament (legislature) is not restricted by any provision of the Constitution with respect to the bill submitted by government. According to Act XXXVIII of 1992 on General Government (Public Finance Act) by end-November the Parliament establishes the amount of the deficit and the amounts of the expenditures and revenues of the various chapters. Thereafter the various M-P's may only reallocate amounts within the chapters.

On the basis of the General Government Act the Parliament adopts, in - law, the budget and the statement closing the accounts on the implementation thereof, for the three sub-systems of general government, i.e. the central budget, the extra budgetary funds and the social security funds. As part of the central budget the Parliament approves the financial statements on the extra budgetary funds ante adopts a separate law on the budget of the social security funds.

The fourth sub-system of general government, i.e. local (Municipal governments establish their own budgets within the legal and annual financial regulation framework created by the Parliament of which within the deadline specified in accordance with the promulgation of the budget law - they are obliged to inform the government.

2.2. *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years. Does the legislature take a more active role in the budget process now than it did 10 years ago? If so why?*

The Parliament (legislature) has made amendments to each of the budget proposals submitted by government.

Ten years ago the budget proposal was a short one, establishing about 20 appropriations. Currently, about 300-600 amendment proposals are submitted to a budget proposal.

Fiscal year	Number of budget amendment proposals
1995	289
1996	625
1997	595
1998	526

Obviously, the role of the legislature following the transformation of the system has changed substantially -- also in respect of the adoption of the budget law - from what it had been a decade ago. The Constitution has been changed fundamentally and, consequently, there is a different political system

in Hungary. Thus the legislature is not only performing a more active role in the creation of the budget law but its decision making powers have also considerably expanded. Currently, the budget proposal contains, besides the appropriations - over a hundred times as many as the proposals used before the system change -- those legislative amendment proposals that are required as foundations for such appropriations. Consequently, the MP's may submit amendment proposals to a rather voluminous norm text and to highly detailed appropriations. A large portion of the amendment proposals do not materially influence the total amounts or the internal structure of the submitted proposal. They are primarily aimed at securing funds, through lobbying or coalition agreements, for minor development projects or other purposes. A very large number of proposals of legislative technique relate to the clarification of the text.

Overview of the amendment proposals submitted to the budget proposal

Fiscal year	On the basis of submitted notions					Supported by government					Adopted by legislature				
	By committees	By opposition	By coalition	Miscellaneous	Total	By committees	By opposition	By coalition	Miscellaneous	Total	By committees	By opposition	By coalition	Miscellaneous	Total
1995	232	233	189	10	664	156	4	93		253	156	4	93		253
1996	308	443	797	42	1590	209	2	234	2	447	200	2	214	2	418
1997	288	300	720	21	1329	177	4	283		464	194	3	291	1	489
1998	444	182	780	25	1431	326	3	107	2	438	350	3	131	1	485

2.3. *Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?*

Although the budget bill or the budget law does cover the whole of the general government, strictly speaking, (including each ministry) but it is to be noted here that the budgets of the social security funds (Health Insurance Self-Government, Pension Insurance Self-Government) are approved by the legislature (Parliament) in a separate law, pursuant to Section 86(1) of Act XXXVIII of 1992.

In respect of the Social Security Self-Governments - pursuant to the Public Finance Act - its projections for the macro-economic indicators are forwarded by government to the Social Security Self-Governments until 30 April, each year, on the basis of which these submit their proposal for the social security system's budget guidelines until 31 May, to government. The government submits its social security budget guidelines to the legislature until 30 June. For the local governments the central government provides information on the Guidelines simultaneously with the submission to Parliament (30 June). In 1997 the guidelines for the central budget and for the budgets of the social security funds were submitted in one concerted documents.

The budget of the local governments is not part of the central budget, only the subsidies to the local governments is contained in the chapter for the Ministry of the Interior.

2.4 *What are the key steps taken by the legislatures in considering the budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable? Do heads of government ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?*

In considering the budget proposal the legislature proceeds on the basis of the decision on the 46/1994. (IX.30) OGY decision on the Standing Orders. The Standing Orders provides for the establishment of permanent and temporary committees. The budget committee is a standing committee which is a senior committee in respect of the budget. Each committee discusses the budget in their respective spheres of budgetary interests.

The committees discuss the budget proposal in two parts, first they decide whether, primarily from a constitutional point of view, the budget proposal is suitable for a plenary debate and then following the closing of the general debate they decide on its suitability for detailed debate and thereafter on the amendment proposals.

The committee makes its decisions by a simple majority of votes.

The government's experts involved in the preparation of the proposed law must be present at the meeting of the committee, they are to answer questions of the committee members and provide the required information. The governments statement of approval or rejection is to be justified.

The Parliament's committee meetings are generally open to the public, except when discussing matters of state secret.

The discussion of the budget bill -- on the basis of the Public Finance Act -- is carried out in two steps.

1. In the first step, until 30 November, the legislature decides, in a Parliament resolution, on the revenue and expenditure totals of the chapters and on the extent of the budget deficit or surplus.
2. In the second phase the legislature may make amendments to the norm text of the proposal or to the annexes thereof only if they do not change the decisions of the first phase, the extent of the surplus or deficit or the revenue and expenditure totals of the chapters. Changes may only result in reallocations within chapters.

2.5 *What resources (e.g. staff) are available to the legislature for reviewing the budget?*

The preparation for the parliamentary plenary and committee debates of the budget proposal is assisted by a very small team (one or two persons by committee, technically). Substantive support is given by the experts of the legal department of the Parliament Office and the experts of the Ministry of Finance.

According to Section 32C.(1) of the Constitution the State Audit Office is the financial-economic supervisory organ of the legislature. In its scope of responsibilities it controls the financial management of the general government, within which is scrutinises the well-foundedness of the central budget proposal, the legitimacy, necessity and propriety of outlays.

According to the Public Finance Act the budget proposal is discussed by Parliament together with the opinion of the State Audit Office while the closing accounts is discussed together with the report of the State Audit Office.

The experts of the State Audit Office participate in the work of the committees of Parliament.

2.6 Are there any arrangements in place for the legislatures to establish aggregate expenditure ceilings before beginning on individual expenditures items? If so, please describe.

The Constitution does not restrict the legislature in the definition of the expenditure appropriations.

2.7 What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcome? How is this information used by the legislature?

The annexes to the budget proposal and the volumes containing detailed chapter budgets have in-depth information on the various expenditures and revenues. In this framework the detailed information and report papers specify the various appropriations the goals of the various appropriations and investment projects involved in programme financing, the annual and time proportionate implementation thereof and the commitments for the later years as well as the determination. The legislature uses the information so received, in the debate of the bill and in the framework of the closing accounts.

2.8 What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programs)?

All appropriations are annually voted. In the bill the government and the legislature takes into account all earlier commitments⁴ this may be in the form of the budget law amending an act of law establishing an earlier commitment.

2.9 Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have there been in each of the past three years?

Section 41 of Act XXXVIII on Public Finances provides for the necessity of the submission of a supplementary budget (amendment) bill.

The government is obliged to submit supplementary budget bills to the Parliament if the conditions have changed during the year in a way as would substantially and lastingly threaten the proposed balance of the central budget.

The government is obliged to submit the supplementary budget proposal to the legislature also if the general reserve appropriated in the budget is expended and the funds specified in the budget act are not sufficient to cover the expenditure appropriations.

The budget amendment proposal is approved as is the budget proposal, this provided for by Section 120 of the parliamentary decision no. 46/1994. (IX.30) OGY on the Standing Orders of the Parliament of the Republic of Hungary provides.

The adoption of the austerity measures known as the “Bokros package” entailed the adoption of a budget amendment. Over the past two years (1996-1997) no budget amendment was prepared, except for slight modifications of the budget law which involved the changing of some 10-15 appropriations by the legislature, without changing the major indicators (balances, debt elements).

3. Fiscal Relations with Lower Levels of Government

3.1 Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?

Consultation on the volume of the subsidies provided from the central budget are underway with the Local Governments’ Associations.

3.2 Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?

The local governments approve their own budgets alone -- within the legal limits -- including the budget act. The legislature approves the legal titles, volumes and conditions for the allocations for the budgetary subsidies of local governments, along with the percentage of the personal income tax that is assigned to local governments, and the rules of its distribution. the law defines and at an annual level specifies the regulations on the various revenues (fees, privatisation revenues).

3.3 Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?

For local governments the law on local governments contains a provision restricting over year borrowing up to 70 per cent of their own revenues (net of their annual liabilities) which is verified, in each case, by a certified auditor. This was introduced as of 1 January 1996, with the amendment of the act on local governments. According the law a local government may borrow, issue bonds, provide survey, leasing, only observing the above upper limit.

3.4 If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.

Where a local government has financial difficulties for which it is not responsible it is resolved via a separate appropriation in the central budget and the related expenditure regulations. This covers the management of cases of *force majeure* as well.

In 1996 Parliament regulated the procedure of the debt settlement for local governments, in a separate Act. This provides that the insolvency of a local government is established by a court of law. the law puts restrictions on the autonomy of the financial management of local governments (e.g. the powers of undertaking commitments, of remissions, participation in businesses etc.). Financial trustees are appointed with law governed roles of debt settlement. The required funding is approved in the central budget. Furthermore, there is the category of “municipality in financial difficulty without reasonable responsibility” and the acceptable *force majeure* situation for the management of which there is a special appropriation in the central budget.

4. Managerial Flexibility

4.1 *How many appropriation lines are voted on by the legislature in the annual budget bill. At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?*

Upon the approval of the annual budget law the legislature voted for 2 119 appropriations for 1998. the appropriations are detailed on the basis of the following major principles. The budget proposal details the appropriations to the depths of chapter, title, sub-title, appropriation group, and prioritised appropriation, as well as on the basis of ordinary and extraordinary appropriation. Furthermore, in the case of the expenditures of budgetary institutions there is a breakdown by personal benefits borne by the operating budget, the contributions borne by employers, material expenses, other operating expenses, renovation, other institutional accumulation expenses, other central investment, housing construction, housing subsidy. The so called chapter managed appropriations are separated from the appropriation of the budgetary institutions within the group of which -- on account of their orders of magnitude -- the investment target programmes classifying as governmental investments and the priority governmental investments need be mentioned. In the area of revenues, for budgetary investments, there are operating budgetary and accumulation revenues from which the revenues of the chapter managed appropriations are separated, along with the major revenues of the central budget in the Ministry of Finance chapter. International settlements are in a different breakdown, in accordance with the features of the appropriations. The breakdown of the expenditures and the revenues of the domestic and international borrowing and external debt repayment chapters of the budgetary "technique".

4.2 *Can appropriations be moved from one item of spending to another within a programme? Can appropriations from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?*

Yes, there are. These may be resolved in exercising the appropriation modification powers. the possibilities of modifications re governed by the Act on General government its implementing decrees as well as the annual budget laws.

The power may be exercised by:

- The Parliament (legislature)
- Government
- the head of the organ in charge of the chapter
- head of an institution

Reallocation may be implemented:

- By the reallocation of a duty and of funds (in chapter supervision competency, on the basis of an agreement);

- From budgetary reserve appropriations (Government)
- Within a chapter between titles (depending on the extent, by the Government or the head of the organ supervising the chapter)
- Within an institution in relation with the generation of a revenue surplus or an appropriation residue (head of institution).

The right of reallocation of various chapters may be retained by the legislature on the basis of the budget law. Targeted types of appropriations may only be used or re-allocated under identical legal titles.

4.3 Can managers decide to contract our services currently performed in-house or supplied by a central agency if they believe this to be more efficient?

Yes, within the framework of the act on public procurements. Furthermore, in the reform of general government tasks and institutions have been commercialised, outsourced, to a considerable degree.

4.4 If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?

The review, accounting and expenditure of appropriation residues are regulated by the Public Finance Act, the implementing decrees and the annual budget law. According to the Public Finance Act, in general, no payment may be effected to the debit of an appropriation residue prior to the revision relating to the budget report. Appropriation residues are approved by the Minister of Finance. According to the Public Finance Act, exceptions to this are the residues that are subject to commitments, residues originating from funds taken over and residues originating from funds taken over and residues originating from own revenue surplus. Such residues may be used on the basis of an appropriation amendment in the (chapter's, institution's) own competency.

For the purpose of increasing personal remuneration - taking into account the obligations of social security contributions as well - amounts from the residue through savings in the same appropriations.

Appropriations that are carried over to the next year that are not burdened with commitments, not committed by a permit or under a contract, as well as upon accounting the unjustified subsidies are cancelled.

Residues of appropriations managed by chapters and within them the residues of fixed investment appropriations are reviewed by the Ministry of Finance and appropriation residues may be used in the next year to the extent of commitments undertaken in the previous year.

4.5 Are there any arrangements in place where managers may borrow against future appropriations. If so, please describe applicable maximums and other conditions.

It is not possible to borrow against future appropriations in the sector of budgetary institutions.

4.6 Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? what flexibility

do manager have in setting the wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.

There are not quantitative restrictions on the number of staff that may be employed in government organs. The annual budget proposal and the statement on closing of accounts contain data for information but they are not binding.

The manager of a chapter or a budgetary organ has flexibility to the extent of the volume of the available appropriation, the total volume of amount available for wages -- subject to the rules on the wages that may be paid to individuals -- in respect of hiring and firing.

The definition of the wages of the employees is governed by a variety of laws, including the Labour code, the laws on the legal status of public servants and that of civil servants as well as a number of other specific laws (on prosecutors, judges, service law). For public servants the law sets a minimum amount which may be exceeded in respect of the financial coverage. For civil servants the law defines the amount of the basic salary, from which the entity exercising the rights of the employer may digress in either direction and may also apply salary supplement for quality.

5. Accrual Accounting and Budgeting

5.1 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviation from full cash-basis or full accrual-basis. Do some types of government organisations (e.g. agencies, and enterprises) use accrual basis whereas others do not? If so, please describe. Are certain transactions (e.g. interest on government debt, civil service pension plans) treated on accrual basis whereas other transactions are Not? If so, please describe.

In Hungary the accounting principles require so-called modified accrual-basis in general, but nearly modified cash-basis for the government sector. The budget is prepared on cash basis. The Law of accounting approved by the Parliament in 1992 and modified in last and this year includes all the most important accounting rules corresponding the international and European accounting principles. The main rules of government accounting are the following:

- a) the central budgetary institutions (CBIs) belonging to ministries and spending authorities, local governments and their budgetary institutions, social security funds and extra-budgetary funds belonging to ministers have their own double-entry bookkeeping system:
- the produced assets are recorded in historic price, the non-produced assets (land, forests, minerals) are not recorded in the assets, but both re registered analytically;
 - consumption of physical assets are registered once a year before compiling annual financial report using fixed percentage by type of assets ordered by government decree. The level of percentage responds custom level and also accepted by tax laws;
 - purchase of inventories are recorded directly as expenditures, but at the end of the year the changes in stocks are registered by providing data from analytical registers and approved by stock-lists;

- consumption of inventories are recorded at the time of purchase and valued in purchasing price;
 - financial claims, liabilities, receivables and payables are recorded in analytical registers at the time of occur. Occasionally but at least biannually the changes are transformed from analytical registers to general ledger;
 - deposits in foreign exchange are evaluated at the end of the year at the exchange rate on 31 December;
 - cash flows are recorded as expenditures and revenues.
- b) the Hungarian State Treasury maintains double-entry bookkeeping not only for his banking function but also for the central government direct operations (e.g. tax and tax-type revenues, subsidies, transfers, and loans) and for debt management and cash management (including all debt services, borrowings and transactions in government securities):
- the accounting system was established last year and has been being developed to integrate data provided by the banking account information systems and other analytical registers in the same way as in other units;
 - in addition, the accounting system of central budget is developing to generate data in accrual basis especially those of concerning debt liabilities, securities, interest receipts and payments.

5.2 *Has the government's basis of accounting moved from cash basis to accrual basis in recent past? If so, please describe. Does the government have plans to move to accrual basis in the near future? If so, please describe.*

In order to compile national accounts for government sector (SNA, ESA95) based upon the double-entry bookkeeping system of governmental units. Ministry of Finance has decided to work on moving towards modified accrual-basis. Beside the steps in the area of financial assets, the budgetary institutions have to report adjustments also for derivation from cash to accrual in wages and salaries, social security contributions, interest receipts and payments. These data will be used for global adjustment of cash flow data for compiling government sector national accounts. Other investigations are being made in the area of accounting of consumption of fixed capital assets and production of government services. In the next 1-2 years the Hungarian Ministry of Finance will concentrate on improving cash flow and commitment information system. If the Treasury system provides integrated information on budget execution and cash flows during the year, the double-entry bookkeeping system will turn for modified accrual basis. The preparation work are connected and combined with the developing of finance statistics meeting the Excessive Deficit Procedure criteria in measuring the government sector net borrowing/net lending and debt under the ESA95 methodology.

If the government uses or plans to use accrual basis, please answer questions 5.3 - 5.7.

5.3 *Are consolidated whole of government financial statements prepared on accrual basis. Or are only departmental or agency level financial statements prepared on accrual-basis? If so, why?*

5.4 *What is the frequency of financial reporting on accrual basis? Is there more frequent reporting on cash basis? which of these reports is independently audited.*

5.5 *How are “heritage assets”, such as museums and national parks, treated for reporting purposes?*

5.6 *How are government accounting principles, standards and definitions determined? Does the government establish these unilaterally or does it rely on private sector accounting policy boards?*

5.7 *Is the budget resented to the legislature on accrual basis or cash basis, or both? Does the legislature approve the budget in accrual terms or cash terms, or both? If applicable, is there reconciliation between the different basis of accounting used in the budget and the financial statements?*

6. Capital budgeting

6.1 *Are appropriations divided between separate capital and operating budgets? Or capital expenditures and operating expenditures consolidated in single budget?*

Capital and operating expenditures are consolidated in a single budget.

6.2 *Has there been a change from having a capital budget to not having a capital budget, or vice versa, with the last 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?*

The transformation of the general government information system as well as the formulation of the new presentation of the budget is in the stage of preparation. The introduction of a separate capital budget has not been found necessary as yet.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they threatened otherwise? does this differ by type of capital expenditure (e.g. purchase of capital used by the government, grants to lower levels of government physical and non-physical capital)?*

Capital expenditures are separately included within the budget, on the one hand, as appropriations managed by chapters within the chapters and on the other hand, as institutions' separately stated accumulation expenditure appropriations. Of the grants provided to lower governmental levels the only the fixed investment subsidy amounts are defined, such as the targeted subsidies for local governmental developments. Capital expenditures generally only contain the physical capital expenditures, non-physical capital is not treated by the budget as capital expenditure but of course there are, for instance, appropriations for research and development and education and training, in the budget. By type of capital

expenditures, only the central investment expenditures are separately stated, within these the projects and programmes whose total expenditure is in excess of 0.2 per cent of the bottom line total of the budget expenditure are stated as priority items.

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

The approved budget law and its attachments do not include separate chapters or tables summarising capital expenditures. The Public finance Act obligates the government to present the effects on future years of the ongoing central fixed investments, in the general justification of the budget proposal.

6.9 *Are there any separate (long-term) plans for capital expenditures (e.g. infrastructure development) that are used for reference in the annual budget process? Please give examples.*

There is no general and all-inclusive development plan but in 1997 an infrastructure development program was elaborated. These are part-programmes, such as for instance the development of the motorway and main road network, the national environmental programme, the transport development concept, the program for the preservation of the architectural heritage and for the development of cultural institutions until the year 2000, etc.

Consolidated development plans are intended to be prepared in the future, for a variety of reasons, including the prospective EU accession.

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g. by special earmarked taxes)? Please give examples.*

The investment projects implemented by extra budgetary funds are subject to special financing rules. Such funds (including the Road Fund, the Water Management Fund, Central Environmental Fund) may use their liquid assets for law governed purposes. these funds are funded from tax and fee type revenues.

Special funding practices are applied in the case of development projects implemented with the World Bank, EBRD, EIB loans.

6.11 *Does the operating budget include any charges for the use of capital (e.g. depreciation, payment of interest, return on capital employed)? If so, what basis are the charges determined and how are they paid?*

The operating budget does not include the charges and expenses relating to the use of capital, nor does it contain depreciation. The interests of the loans relating the capital expenditures and the liquidity interests are contained separately in the operating budget.

6.12 Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?

The budget contains the cash flow based expenditures in the given budget year. The Parliament approves the investment appropriations for the next year but it is also informed on the annual schedules for the whole of the period. In the priority central investment projects the central expenditure that is to incur until the completion of the project is known and the timing of the outlays is approved and may be amended by the Parliament. The residue of an appropriation for an investment project left over from the prior year may be used in the next year but that is encumbered with a commitment.

ICELAND

1. Fiscal Performance

1.1 *In the last few years, the balance on the Treasury has improved significantly and in 1997 it was run with a surplus for the first time since 1984 (measured on cash basis). The surplus amounted to over 1,200 million krónur (0.2 per cent of GDP), compared with a surplus of 100 million krónur in the budget (0.0 per cent of GDP). In effect, the surplus is even greater, or 4.7 billion krónur (0.9 per cent of GDP), when account has been taken of the redemption of Treasury securities enacted in 1997, which was not accounted for in the budget. The net borrowing requirement in 1997 amounted to 600 million krónur (0.1 per cent of GDP), the lowest since 1984.*

A greater surplus on the Treasury is estimated in 1998, or 2.9 million krónur (0.5 per cent of GDP), measured on a cash basis. The Budget for 1998, however, is presented on an accrual basis and on that basis the surplus amounts to 132 million krónur (0.0 per cent of GDP). The net borrowing requirement in 1998 is expected to be negative in the amount of 4.8 billion krónur (0.9 per cent of GDP).

1.2 *Reaching a balanced budget has, in recent years, been seen as one of the most important tasks of economic policy. Thus, the Government emphasised that a balanced budget should be reached no later than in 1997. This objective was met. Furthermore, the Government has emphasised the need for a balanced budget over the business cycle, i.e. a structural balance. In addition, a surplus is needed in order to reduce the outstanding government debt.*

2. Role of the Legislature

2.1 *There are no formal restrictions on the ability of the legislature to modify the budget proposed by the government. Governments in Iceland have almost always had a majority in parliament which usually consults with the government before it modifies the budget.*

2.2 *The legislature usually passes the budget as proposed by the government. In 1997 amendments were about 150 and increased expenditure about 1.8 billion krónur (1.4 per cent of the total budget) and increased income about 0.8 billion krónur. In 1998 amendments were 142 and increased expenditure about 2.7 billion krónur (1.7 per cent of the total budget) and income about 2.3 billion krónur. All amendments were either propositions from the government or from its supporters in the legislature.*

2.3 *Starting in 1998, there is one budget for the government as a whole. Prior to that there were two budgets, one for income and expenditure and another for government borrowing.*

2.4 *When the Minister of Finance has introduced for the budget bill it is referred to the Budget Committee. The committee refers the various sections of the bill to the appropriate sectional committees that can give their opinion but can not propose any changes. Sectional committees were, however, asked to propose how certain transfer items should be distributed in the 1998 budget. Sectional committees*

usually invite representatives from the ministry concerned and the Ministry of Finance to introduce the budget bill.

The Budget Committee invites representatives from all ministries to introduce and explain expenditure proposals, and representatives from the National Economic Institute to discuss the underlying economic assumptions. The Ministry of Finance is represented at these meetings. The Committee invites agencies, municipalities and associations to meet with the Committee to give their view on the bill. Committee meetings are closed to the public.

2.5 *The legislature has its own staff and resources to pay for assistance. The Budget Committee gets specialised assistance from the National Audit Office which is under the legislature and some technical assistance from the Ministry of Finance.*

2.6 *The government sets an expenditure frame for every ministry when preparing the budget bill. The legislature is not tied to these frames and does not discuss them formally but deals with single expenditure proposals.*

2.7 *In the comments on the budget bill there are explanations to all major changes from the last budget. Explanations are mostly about changes in input and arrangement, and not about output and results. In a special publication which the Ministry of Finance has published parallel to the budget bill, the operating cost of every agency is divided into major projects and activity indicators are shown for every project. In the next few years agencies and ministries are expected to revise these indicators so they can give a good picture of every agency's performance.*

The budget committee and sectional committees have these activity indicators at hand when they discuss each agency's projects and propositions.

2.8 *After voting for all changes of the budget bill, the total budget appropriation is voted on as a whole.*

2.9 *Each year two supplementary budget bills are enacted. In the first supplementary bill, which is enacted in the autumn, a formal authority to increase appropriations in the current fiscal year is sought. These include the authority to subtract excess spending or carry over unused appropriations from the preceding fiscal year from the current year's appropriations. In the latter supplementary budget bill, which is enacted in the spring next year, a formal authority is sought to finance expenditure in excess of appropriations of the previous fiscal year.*

3. Fiscal Relations with Lower Levels of Government.

3.1 *There are no formal mechanisms in place for consultation with lower levels of government, municipalities, for establishing a national fiscal strategy.*

3.2 *The national government has no role in reviewing or approving the budgets of lower levels of government.*

3.3 *The national government does not impose any restrictions on the borrowing activity of lower levels of government (municipalities).*

3.4 *If a municipality is in financial difficulties its leaders are expected to inform the Ministry of Social Affairs which will start an investigation into the financial management and spending of the municipality and advise how to respond. The Ministry can decide that the municipality has to raise local taxes on individuals and/or firms. The Ministry can also help the municipality with government loans and subsidies. If the financial situation is too difficult for the local government to handle, the ministry can take over the financial management, if the municipality in question so requests, and hand it over to a special committee appointed for the purpose.*

4. Managerial Flexibility

4.1 *The legislature approves each amendment to the budget bill and finally votes on the bill as a whole. There are three types of projects: operating cost, transfers and investment. Expenses are consolidated into one appropriation for each project.*

4.2 *Appropriations can neither be moved from one program to another nor from one item of spending to another, although no action has been taken in instances when this has been done.*

4.3 *Managers can decide to contract out services currently performed in-house or supplied by a central agency following a public tender.*

4.4 *It is a general rule that unused appropriations and overspending are carried over to the next year, for projects that will continue.*

4.5 *Managers are not allowed to borrow against future appropriations.*

4.6 *There are no centralised quantitative restrictions on the number of staff that can be employed in government organisations.*

Flexibility in hiring depends on budget appropriations. The room for discharging staff is specified by the Government Employees Act. As a rule all general, non-managerial, staff is hired on an indefinite basis with a mutual notice period of three months. Fixed-term employment contracts may also be used, although only for a period of less than two years.

Managerial staff is appointed for a fixed term of five years. The contract is automatically renewed for another five years as long as the staff member is not notified otherwise within six months prior to the expiry of the contract period. These rules apply to government managers and public safety personnel. District judges and Supreme Court Justices have a lifetime appointment.

Government employees are paid in accordance with salary agreements. According to the Government Employees Act, managers are authorised to award supplementary emoluments to individual staff members, other than higher echelon staff. This authorisation extends to emoluments awarded for exceptional skill or achievement. Such decisions of managers shall be in accordance with rules set by the Minister of Finance. Such rules have not yet been set, since under the latest salary agreements it was agreed that they should be postponed until the end of the agreement period at the end of October, 2000. Other employment conditions are dealt with in salary agreements of individual unions and managers are not authorised to negotiate pay terms in excess of union agreements.

The pay of managers and higher-echelon staff is decided by the State Salaries Arbitration Court and the Salaries Arbitration Committee. Such staff is not entitled to additional emoluments.

5. Accrual Accounting and Budgeting

5.1 *The government uses accrual budgeting from the year 1998 on with the exception that investments are written off at in the year they are made.*

5.2 *The government's basis of accounting was moved from cash basis to an accrual basis this year (1998).*

5.3 *The whole-of- government financial statements are prepared on an accrual basis.*

5.4 *Financial reports on an accrual basis will be prepared for the government twice a year and monthly on a cash basis.*

5.5 *The government is establishing a register of all its durable assets (including so-called heritage assets) which will be classed by type of asset. The register will be published with the annual government accounts.*

5.6 *Government accounting principles are broadly specified in the Government Accounting Act of 1997. The government will take account of private sector accounting standards as they evolve and as they apply to government accounting.*

5.7 *The budget will be presented on an accrual basis along with an expected change in the cash position of each budget item. The legislature is asked to approve both.*

6. Capital budgeting

6.1 *Capital expenditures and operating expenditure are consolidated in a single budget.*

6.2 *Not applicable.*

6.3-6.6. *Not applicable.*

6.7 *Capital expenditures are within the budget. Expenditure of every ministry are divided into items consisting of current or capital expenditures.*

6.8 *The main budget bill does not contain a separate chapter of tables summarising capital expenditure. These are shown in tables in a separate budget summary that accompanies the actual budget bill.*

6.9 *There are no separate long-term plans for capital expenditure that are used for reference in the annual budget process.*

6.10 *There are some examples of special earmarked taxes for capital expenditure:*

- a) Buildings for cultural institutions are financed with a wealth tax.
- b) The Agricultural Fund is financed with a tax on agricultural production.
- c) The Construction Fund for the Disabled is financed with an inheritance tax.

d) The Construction Fund for the Elderly is financed with a lump-sum tax on all individuals between 16 to 70 years of age who pay income tax.

e) Road construction and maintenance is financed with a tax on petrol.

6.11 The operation budget does not include any charges for the use of capital, but this is likely to be changed in the near future.

6.12 The legislature provides partial funding incrementally year by year until a capital project is completed. The rationale for this method is that the legislature has the option of having the investment project under continuous review as the need of the present dictates.

IRELAND

1. Fiscal Performance

1.1 *Please outline the Government's fiscal performance in the last fiscal year and the outlook for the current fiscal year in nominal terms and as a percentage of GDP?*

Budgetary Outturn for 1997

The Exchequer Borrowing Requirement totalled £235m in 1997 or 0.6 per cent of GNP. This compares to a Budget target of 1.2 per cent. The General Government balance, the measure used for Maastricht purposes, showed a surplus of 0.9 per cent of GDP. A deficit of 1 per cent of GDP was originally forecast.

Tax Revenue

This better than expected performance was due to buoyant tax receipts. Tax revenue for the year was 14 per cent ahead of 1996 compared to a Budget target of 5.9 per cent. A] most all of the tax heads were significantly ahead of expectations. Taxes on income grew by over 14 per cent while both VAT and taxes on corporate profits increased by almost 20 per cent.

Net Current Expenditure on Supply Services:

Net Current Expenditure on goods and services - which is net of those receipts offsetting Departmental expenditure - increased by 8.7 per cent. This compared to a budgeted increase of 6.6 per cent, an excess of £193m over the Budgetary projections. The main increases arose on Pay, Education, Health, Agriculture and Defence. In summary the main items were:

- Additional non-budgeted pay costs of £51 million arose as a result of pay settlements under the national pay agreement - Programme for Competitiveness and Work following on the settlement of a dispute with Nurses. Garda and Prison Officer overtime added an extra £32 million to Exchequer pay costs.
- The allocation for Education and Science exceeded its budgeted provision mainly as a result of the issue of £101 million in total in 1997 to meet liabilities which had originally been expected to arise in 1998.

- Health spending exceeded the Budget provision by some £90 million, of which £42 million was accounted for by Hepatitis C compensation costs. Additional costs also arose on the various drugs refund schemes, assistance for the elderly and disabled.
- Extra spending of £40 million approximately arose on Agriculture, approximately half of which related to changes in the Green Pound.

These, and other additional gross expenditure costs, were offset by savings elsewhere, most notably on Social Welfare where spending was £146 million below estimate mainly as a result of buoyant PRSI receipts which are offset against expenditure.

Central Fund

In general terms Central Fund expenditure - which is made up mostly of Ireland's EU Budget Contribution and Debt servicing costs - was in line with expectations. However the Government availed of the opportunity provided by buoyant tax receipts to discharge some outstanding liabilities which are charged on the Central Fund. These included payments made to the Post and Telecom Pension Funds of £305 m and the Small Savings Reserve Fund of £208 m. These payments principally explain the increase in the level of Central Fund expenditure of some £431 million. Discounting these once-off payments, underlying expenditure did not increase.

Capital Expenditure

Net Capital expenditure is some £17 million higher than target due to lower than expected receipts under the EU forestry programme. On a gross basis, expenditure is broadly on target with overruns in the areas of Education, Health (Improved facilities) and Agriculture (on-farm investment) which totalled £66 million being offset by equivalent savings elsewhere.

Budgetary Outlook 1998

The 1998 Budget, introduced on 3 December 1997, projected:

- *a current budget surplus of £1.1 billion or 2.5 per cent of GNP*
- *a capital deficit of £1.2 billion or 2.7 per cent of GNP*
- *an Exchequer Borrowing Requirement of under £100 million or 0.2 per cent of GNP*
- *a General Government Surplus of 0.3 per cent of GDP.*

It was forecast that revenue would grow to £15,167 m in 1998, an increase of 7.1 Net Current Supply expenditure is expected to increase by 3.7 per cent. Full details are given in the attached table overleaf.

In reporting to the European Commission at the end of March the forecast for the General Government Surplus was increased to 0.5 per cent of GDP from 0.3 per cent. This reflected the under-forecast on Budget day (3 December 1997) of the 1997 outturn for receipts. This amounted to about £100 m. As a result of the revised projections for 1998, it is expected that there will be an Exchequer Surplus of £15m.

Indications for the year to-date suggest that receipts are performing well and are ahead of profile. The Government has indicated that the expenditures commitments in the 1998 budget will not be exceeded and that additional revenues will be used to increase the surplus. Accordingly, it is expected that the Budgetary performance will exceed expectations and show a higher surplus than forecast.

1.2 Please outline the Government's medium-term fiscal policy objectives, in nominal terms and as a percentage of GDP ?

Medium-Term Fiscal Objectives

This Government's Programme, *An Action Programme for the Millennium*, outlines the main fiscal objectives for the next five years. These include:

- to run a current budget surplus
- to eliminate exchequer borrowing requirement over the next two to three years, if present conditions continue
- to limit net current expenditure growth to 4 per cent and capital expenditure growth to 5 per cent on average up to 1999, and to reduce overall Government spending as a share of national output
- to fulfil the terms and commitments of the partnership 2000

The 1998 Budget targets are fully consistent with these medium-term objectives. On a General Government basis a significant budget surplus is forecast for each year to 2000. It is now expected that Exchequer Borrowing will be eliminated earlier than the year 2000. The increase in net current expenditure has been kept to 4 per cent. Over the period to the year 2000, Government spending will decline as a proportion of GNP.

The detailed projections to the year 2000 are included in the attached table. The General Government Surplus will increase incrementally to the year 2000 by which stage the surplus is forecast to be 1.3 per cent of GDP.

It should be noted that these projections are based on prudent forecasts of economic growth. The latest medium-term forecasts suggest a gradual slowing of economic growth to a more sustainable 5 per cent per annum for the rest of the decade.

As indicated in Question 1. 1 the budgetary outlook has improved since Budget day. It is now expected that the projected surplus of 0.3 per cent for 1998 will be exceeded. This improvement will be carried forward into subsequent years. Moreover, the Government has renewed its commitment to medium-term fiscal policy objectives which maintain non-inflationary growth. The Government has indicated that the expenditure commitments in the 1998 budget will not be exceeded and that additional revenues will be used to increase the surplus.

Stability and Growth Pact

These budget targets are also consistent with the Stability and Growth Pact. The objective of the Pact is to ensure that budget positions are close to balance or in surplus to allow Member States to deal with normal cyclical fluctuations while at all time keeping the Government deficit within the reference value of 3 per cent of GDP. Given the favourable economic conditions in Ireland, adherence to the terms of the Pact suggest significant surpluses over the medium-term. These will provide fiscal leeway in the event of deterioration in economic conditions.

Meeting the terms of the Pact is a principal element of the Government's fiscal policies. This will be an essential consideration in framing future budgetary strategy. The Partnership 2000 agreement also committed the Social Partners to the management of the public finances in accordance with the EU Stability and Growth Pact.

2. Role of Legislature

2.1 Are there any restrictions on the legislature to modify the Budget proposed by the government? If so, what form do these take?

2.2 Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years.

Questions 2.1 and 2.2 are answered together.

Parliament is constrained in its initiation of tax and expenditure measures. The right of initiative in relation to public finance is vested in the Government by virtue of Article 17 of the Constitution. This stipulates that the Dáil (Parliament) may not pass any Vote or resolution, and no law may be enacted for the appropriation of public moneys unless the purpose of the appropriation has been recommended to the Dáil by a message from the Government signed by the Taoiseach (Prime Minister '). The Constitution provides that the Government shall prepare Estimates of Receipts and Expenditure of the State for each financial year and present them to Parliament for consideration.

The legislature has no power to propose amendments on the expenditure side of the Budget.

However, the legislature can propose amendments to the taxation or revenue raising side of the Budget. The taxation and revenue raising measures announced in the Budget are given legal effect to by the annual Finance Bill. The Bill also includes additional taxation measures of a more technical nature that are not normally announced in the Budget. During its passage through the Dáil, amendments to the Finance Bill are proposed by the Government and the opposition. Typically, only the Government amendments are approved. In 1996, there were a total of 188 proposed amendments to the Bill, of which 80 were approved. In 1997, 208 amendments proposed, 107 approved and in 1998 260 amendments were proposed of which 102 were approved.

Does the legislature take a more active role in the Budget process now than it did 10 years ago ? If so, why? (last part of question 2.21)

In relation to the expenditure side of the Budget, the annual Estimates are considered by the Parliament through the Committee system. Each Estimate is considered separately by the Dáil on a motion made by a member of the Government, usually the Minister responsible for the Estimate. The motion on each Estimate is debated in a relevant committee of the Dáil, following which it is returned for approval by the Dáil by way of a Financial Resolution. All the Estimates and the Financial Resolutions thereon are normally passed together following an overall or general Dáil debate on the Estimates for the year. Final statutory authority for the Estimates is given by the legislature through the enactment of the annual Appropriation Bill. This is normally the last item of legislative business dealt with by the Dáil in the calendar year.

The number and scope of Dáil Committees has increased significantly in recent years. This development has facilitated a more detailed consideration and scrutiny by the legislature of the annual Estimates.

In relation to the taxation side of the Budget, new procedures were put in place in 1996 for dealing with pre-Budget submissions. Submissions were received and considered by the Select Committee on Finance and General Affairs, then reported to the Dáil on its findings and made recommendations on what it considered to be the priorities for the January 1997 Budget. The Minister for Finance considered their report and appeared before the Committee to give his response to their proposals. All Committees were disbanded in 1997 in advance of the General Election and the new Committees were not established in time to consider submissions in advance of the December 1997 Budget. It is unclear at this stage what will happen in future years.

2.3 Does one budget or appropriation bill cover the Government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditure?

One Appropriation Bill covers Government expenditure as a whole. Final Parliamentary consideration of the expenditure Estimates takes place with the passing of the annual Appropriation Bill which gives statutory effect to the individual Estimates which have been approved by the Dáil earlier in the year, including any supplementary estimates which have also been approved by the Dáil. All the Estimates are covered in the one Appropriation Bill. The Bill includes a Schedule which shows the net amounts appropriated for each service (Departmental Estimate).

The Government's taxation measures are legislated for by way of the annual Finance Act which must be enacted within 4 months of Budget Day. The Act's primary function is to give effect to the revised tax rates and bands to apply in the coming tax year. In addition the Act would also generally include certain anti-avoidance measures, to close off loopholes in the tax code that have come to light.

Finally the "Social Welfare Bill" enacts changes in the Social Welfare System brought about by the Budget.

2.4 What are the key steps taken by the legislature in considering the Budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable? Do heads of Government Ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?

Two draft documents - *the Abridged Estimates for the Public Services and Summary Public Capital Programme* and the (White Paper) *Estimates of Receipts and Expenditure*, ~ are presented to Parliament

each year prior to the Budget. The AEV & SPCP show the Government's pre-Budget expenditure plans. The White Paper presents the Budget arithmetic on the basis of these spending plans and the present, that is, pre-Budget, taxation rates. The Minister for Finance's *Budget Statement* which is now presented in December of the preceding year reviews Ireland's financial and economic position and sets out the Minister's proposed adjustments to the pre-Budget documents, in particular, the changes to taxation. So far as expenditure is concerned, most Budget changes relate to social welfare.

Following the annual Budget, the *Revised Estimates for the Public Services* and the *Public Capital Programme* are published. These include all Budget day changes to the expenditure estimates published prior to the Budget. The *Revised Estimates* are presented to the Dáil and replace the *Abridged Estimates* published prior to the Budget.

Final Parliamentary consideration of the expenditure Estimates takes place with the passing of the *Appropriation Act* which gives statutory effect to the Estimates approved by the Dáil.

The role of the legislature in considering the Estimates through the system of Dáil committees was outlined in the answer to question 2.2 above. When an Estimate is being considered by a committee, the Minister concerned attends along with senior officials of his/her Department, including the Secretary General. The committee meetings are generally open to the public.

In relation to the revenue side of the Budget, the taxation changes which are presented in the Budget are enacted in the annual Finance Bill. On Budget night the Dáil passes Financial Resolutions dealing with any measures which propose to increase taxation or impose any additional charges on taxpayers. The resolutions are effectively temporary legislation and remain in force for 4 months, allowing time for the Finance Bill to be drafted. Following its publication, there is a general debate on the Bill in the Dáil followed by a detailed debate of the Bill section by section in special Committee. In addition, amendments to the Bill - both Government and Opposition are proposed and debated. The Public can attend the meeting of the special Committee as observers only, i.e. they cannot contribute to the debate. The Committee reports back to the Dáil that it has considered the Bill and made amendments to it. There is then a further round of amendments proposed and debated before the Bill is passed by the Dáil and transmitted to the Senate for its consideration. The Senate cannot amend the Finance Bill - see answer to Question 2.1 and 2.2. However, it can make recommendations that, if approved, are referred back to the Dáil for acceptance or rejection. After consideration by the Senate, the Bill is referred to the President for signature and enactment into law. This must be done within 4 months of Budget day.

2.5 *What resources (e.g. staff) are available to the legislature for reviewing the Budget?*

As detailed in reply to question 2.2 above, in relation to both expenditure and taxation the annual Estimates are considered by the relevant Committee in the Dáil. In general, each of the 15 Oireachtas Committees which exist at present is assigned a Clerk at Assistant Principal level. Support staff are supplied from a pool of 16 staff available to service the Committees. Obviously these Committees would consider matters other than the annual Estimates associated with their areas.

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditure items? If so, please describe.*

The legislature cannot set overall expenditure ceilings. As indicated in the answer to questions 2. 1 and 2.2. above, the right of initiative in relation to public finance rests with the Government. The legislature cannot alter or amend the Estimates presented by the Government.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes? How is this information used by the legislature?*

No information is presented to the legislature at present. However, as part of the general programme of financial management reforms under the Strategic Management Initiative, Government Departments are now required to specify objectives and outputs in their Departmental Strategy Statements. It is envisaged that, in due course, specification of outputs will become an important element in the Government's consideration of the expenditure estimates.

2.8 *What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programmes)*

Government expenditure falls into two broad categories, namely voted expenditure and non-voted expenditure.

Non-voted expenditure represents expenditure which the Oireachtas has declared by law to be paid from the Central Fund without annual reference to the Dáil and consists primarily of the costs of servicing the national debt. Other items include Ireland's contribution to the EU budget, and the salaries, pensions and allowances of the President and the Judiciary. A separate category of Non Voted Expenditure is Non Programme Outlays (NPOs) which consist of miscellaneous capital payments which are not properly part of the Public Capital Programme. NPOs include such items as contingent liabilities, refinancing of State companies, and Ireland's capital contributions to international bodies such as the EIB or the World Bank. NPOs in 1997 were £69m.

Voted expenditure refers to the ordinary services of Government Departments, both capital and non-capital, the money for which is voted by Parliament on an annual basis i.e. the Supply Services.

In 1997, non-voted expenditure (including NPOs) accounted for 24 per cent of total Government net expenditure and voted expenditure represented 76 per cent.

2.9 *Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have been in each of the past three years?*

If the Government needs to ask Parliament (Dáil) during the year for money additional to that already provided for a Department, a "supplementary estimate" procedure is used to provide the required funds. Under this procedure, Parliament (Dáil) debate and vote on the additional funds. However, the approval of the Minister must be obtained in the first instance.

A supplementary estimate may be used to secure Dáil approval for any of the following:

- a) the provision of additional money for an existing service
- b) the provision of additional money to cover any shortfall in appropriations-in-aid
- c) the provision of money for a new service

- d) to introduce a new service even though no additional money is required (the passing of a supplementary estimate would enable the expenditure to take place on a new service in advance of the passing of the main estimate)
- e) to switch money from one particular service to another within a Vote where this cannot be done by virement
- f) to use surplus appropriations-in-aid to finance additional expenditure, and
- g) to enable the Dáil to debate a service for which the Estimates was previously passed, by arrangement, without a debate.

The number of Supplementary Estimates approved in recent years was as follows: 1995 - 19; 1996 -23; 1997 -22.

3. Fiscal Relations with Lower levels of Government

3.1 Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?

Given the relatively small size of the country we do not have many lower levels of Government, apart from Local Authorities. These Authorities are responsible for local services in their area, but not for fiscal strategy. Apart from consultation with the `Social Partners` the Government is solely responsible for Fiscal strategy.

3.2 Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?

Side by side with improved funding arrangements for local authorities, clear directions have been given to the authorities that strict budgetary discipline is to be observed at all times in their operations.

Extensive monitoring arrangements are in place through which the Department receives comprehensive financial reports from each local authority on a quarterly and annual basis for the purposes of monitoring and assessing financial performance.

Central government exercises a supervisory role over local authorities, who owe their existence to the legislature and who operate within a set of statutes which define their duties and responsibilities. Central government's relationship with local authorities is conducted, in the main, through the Minister for the Environment & Local Government, who has responsibility to Parliament for the operations of local authorities.

The accounts of local authorities are audited by Local Government Auditors, who submit written reports to the Minister detailing the financial performance of the local authority. Matters raised in Audit Reports are followed up directly with local authorities by the Department. A Value For Money Unit was added to the Audit service in 1992.

Local authorities are also required, under legislation, to adopt an Estimate of expenditure each year. The Estimate of a local authority can be defined as its annual operating budget for a given year. Failure to adopt an Estimate or bring in an insufficient Estimate can result in the Minister exercising his legislative powers in dissolving the Council and removing its members from Office.

3.3 Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?

Local authorities may borrow for certain purposes. The prior approval of the Department of the Environment & Local Government is required in every instance of borrowing. Short term borrowing mainly covers overdraft for working capital and revenue purposes, while longer term loans are usually for capital works.

Local authorities borrow from the major financial institutions at the lowest commercial rate. All applications to the Department of the Environment and Local Government for such borrowings must be accompanied by a borrowing resolution passed by the elected members of the local authority. Each such request is examined by reference to the following criteria:

- i. the purpose of the loan
- ii. the public utility and benefit arising from the proposed expenditure, and
- iii. the ability of the authority to repay the loan charges from own resources.

Local authorities submit quarterly reports detailing the main features of their financial affairs, including debt. Indebtedness is controlled by the requirement that all borrowing must be sanctioned.

3.4 If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.

There is no fund for reimbursing local authority debts. One of the main criteria in assessing each application for sanction to borrowing is the ability to pay loan charges. Due to this control, the financial position of any local authority would not be permitted to deteriorate to the extent that they would not be able to meet their commitments in this regard.

However, a new funding system for local government is to be established with effect from 1/1/1999. The Local Government Fund will be established by legislation this year and will receive income from receipts of Motor Taxation and on Exchequer grants. This fund will

- a) pay for the Non National Roads
- b) Act as a general funding mechanism for Local Authorities.

The Fund will be statutorily increased by at least the rate of inflation each year.

This new system will ensure that local authorities will have increased resources to fund their general purpose needs and to plan for future developments.

4. Managerial Flexibility

4.1 How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?

In 1997 the Parliament voted on 46 separate Estimates covering the cost of each Departmental function for which Dáil Eireann will be asked to appropriate money by way of a separate Vote. When an Estimate is passed by the Dáil it is technically known as a Vote. Some Department's expenditure is covered by more than one Estimate.

Each full Estimate contains three main parts:

Part I, known as the ambit of the Vote, sets out a formal description of the services to be financed from the Vote. The services outlined in the ambit must fall within the statutory powers of the Minister concerned. The ambit also shows the net amount of money required for the coming financial year. The Dáil formally votes only the ambit of each Vote;

Part II names the Department which is responsible for accounting for the Vote and sets out the gross provision sought in the Estimate broken-down by subhead. In a typical Vote, the subheads will show pay and other administrative costs and the details of expenditure. The subheads are the headings under which the Department is required to account for the expenditure. They facilitate the financial control of the Dáil and the Comptroller & Auditor-General. However, as indicated above, the Dáil does not vote on the individual subheads in the Vote. It only approves the ambit of the Vote which includes the total net amount of money required for the year.

Part III provides more supporting detail on certain subheads for the information of the Dáil. Part III has no statutory effect and is not used as a basis for accounting for expenditure on the Vote.

Part II of each Estimate/Vote includes separate subheads for salaries, office accommodation, travelling expenses, consultancy etc. usually grouped together as an Administrative Budget. As indicated above, these are not voted on separately.

4.2 *Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?*

Allocations may be transferred between subheads under the specific authority of the Minister for Finance in each case, of savings on one or more subheads to meet excess expenditure on another subhead or subheads in the same Vote. Savings cannot be transferred between Votes. The Minister for Finance may decide to refuse authority for such transfers if, in his view, the additional expenditure would:

- *be on a new service of which the Dáil should be made aware;*
- *be novel or contentious*
- *be large in relation to the original provision in the subhead or, if relatively small, be likely to involve significant liabilities in the future, or*
- *arise from a major change in policy.*

Separate arrangements exist in the case of certain administrative expenditures. Under the terms of agreement between the Department of Finance and Departments, which provide for extensive delegation to Departments of day to day control over categories of expenditure covered by Administrative Budgets:

- a) transfer is permitted between non-pay subheads of the administrative budget but not between
- b) either programme/transfer subheads and pay or non-pay subheads of the administrative budget : or
- c) between non-pay subheads and pay subheads of the Administrative Budget as a general rule.

4.3 *Can Managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?*

There is no general impediment to the civil service contracting out services which have previously been performed in-house.

4.4 *If managers do not incur costs up to the level of the appropriation, does the unused portion carry over to the next-year? If so, is the full amount carried over or only a certain percentage of it?*

Under the 3 year Administrative Budget agreements, between each Department/Office and the Department of Finance, there is provision for the carryover of savings from year to year, subject to a limit, usually 5 per cent of the first year's allocation. This limit remains in force for all subsequent years.

4.5 *Are there any arrangements in place where managers may borrow against future appropriations. If so, please describe applicable maximums and other conditions.*

There are no arrangements in place where managers in government departments and offices may borrow against future appropriations. (In terms of Exchequer borrowing, the exclusive right of the Minister for Finance to borrow for Exchequer purposes is delegated to the National Treasury Management Agency. No other Minister or Department has general authority to borrow).

4.6 *Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? What flexibility do managers have in setting wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.*

Every Government Department/Office has a core staffing target which may not be exceeded, without a Government Decision to grant extra staff, in which case the relevant Department's target is increased. Core staff are permanent staff, required on an ongoing basis. In addition, Departments/Offices are also permitted to have transient staff to perform particular once-off tasks. These must be given up on completion of the task or absorbed into other vacancies.

Managers have virtually no flexibility in hiring or firing staff. Some staff, up to middle management levels may be dismissed by the Secretary General, under the new

Public Service Management Act. However, line managers do not have flexibility to fire staff. In hiring staff, vacancies are filled by one of the following methods:

- from a panel of successful candidates from recruitment competitions;
- by internal promotion of the most senior and suitable officer;
- from a panel of successful candidates from a promotion competition held across Departments;

- from a redeployment pool of surplus staff to be redeployed from other Departments; or
- from transient staff whose mission has been accomplished.

Line managers have no control over who actually arrives to fill a particular vacancy.

Managers have no control over the wages and terms of employment of staff.

5. Accrual Accounting and Budgeting (Government Accounts are done on a National Accounts basis and Appropriation Accounts basis)

5.1 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual-basis. Do some types of government organisations use accrual-basis whereas others do not. If so, please describe. Are certain transactions (e.g., interest on government debt, civil service pension plans) treated on accrual-basis whereas others are not? If so, please describe.

National Accounts

The Exchequer Borrowing Requirement (EBR) is the traditional domestic budgetary aggregate which measures Central Government's borrowing requirement. It is a full cashflow measure of the difference between revenues and expenditures recorded on the Government's Exchequer Account held in the Central Bank of Ireland.

In his 1998 Budget Statement, the Minister for Finance announced that from 1999 on, Ireland's budgetary targets would be set in terms of the General Government Balance (GGB) rather than the EBR. This measures the net borrowing or lending position of all arms of Government, i.e. Central Government, Local Authorities, Health Boards, VECs, non-commercial State sponsored bodies, as well as Extra-Budgetary Funds (such as the Social Insurance Fund) which are managed by Central Government departments. However, it does not include commercial State sponsored bodies.

The GGB is calculated on a modified-accrual basis in accordance with the European System of Integrated Economic Accounts, Second Edition, 1979 (ESA 79). It incorporates some elements of accrual accounting. The accrual adjustments are for

- liabilities arising from Central Government's deferral of payments to the pension funds of An Post and Board Telecom employees (both agencies are now in the commercial State sponsored body sector having previously been part of the civil service)
- the exclusion of the impact of changes in VAT payment periods in certain years
- deferred payments in respect of property acquisitions by Government
- (under ESA 95 from 1999 on) the inclusion of accrued but unpaid interest on Exchequer Small Savings Schemes (will add about 0.4 per cent of GDP to the borrowing side of the GGB).

The other main deviations from cash-basis in the GGB are as follows:

- loan and equity transactions do not affect the GGB on the basis that they change the composition, but not the level, of assets and liabilities
- currency movements (whether positive or negative) in swaps are excluded from the GGB as they are **riot** regarded as an element of debt servicing.

The transactions of non-commercial State sponsored bodies are calculated on a full accrual basis although these are estimates until their accounts (which are audited **in** accordance with standard accounting practice) become available (usually twelve to eighteen months in arrears). However, the effect of these agencies on the overall receipts and expenditure of general government is of much less significance than the other arms of Government, the transactions of which (including interest on government debt and civil service pension payments) are calculated on a cash basis.

Appropriation Accounts

The annual accounts of Government Departments and Offices, the **Appropriation Accounts**, are prepared, as required by statute, on a **cash** basis and also in line with Department of Finance requirements which prescribe **accruals** information as follows:

- a) **closing accruals** - the net position on each Vote subhead for accrued expenses, prepayments, accrued income **and** deferred income at year end are shown in a separate column on the face of the Appropriation Account;
- b) an **Operating Cost Statement**, reconciling the cash outturn figure for the year with the accruals position;
- c) a statement of **Assets and Liabilities**;
- d) the global figure for **commitments** on grant and procurement subheads likely to materialise in subsequent years;
- e) multi-annual **capital commitments**;

On the basis of the above, the accounts represent a modified accruals position. The following qualifications apply:

- the accounts are not presented in a **conventional accruals format**;
- with the exception of notional rent for State-owned property, operating costs do not include the **notional costs** of services provided free by other Departments/Offices.
- accrued **pension and salary** costs are not included;
- expenditure **is** not accrued in certain cases, usually **non-capital non-discretionary programme expenditure**, e.g. social welfare expenditure.

5.2 *Has the Government's basis of accounting moved from cash-basis to accrual-basis in the recent past? If so, please describe. Does the government have plans to move to accrual-basis in the near future? If so, please describe.*

National Accounts

As stated in the answer to 5. 1, the Minister for Finance announced in his 1998 Budget Statement that from 1999 on, Ireland's budgetary targets would be set in terms of the GGB rather than the EBR. The GGB is calculated on a modified-accrual basis in accordance with the European System of Integrated Economic Accounts. Second Edition, 1979 (ESA 79). However, ESA 79 is being replaced by the conventions of the European System of National and Regional Accounts (ESA 95) with effect from 1999. ESA 95 **will** incorporate more accrual conventions than ESA 79 (e.g., treatment of interest accrued on Exchequer Small Savings Schemes) but will still be a modified accrual-basis.

Appropriation Accounts

The **accruals** requirements in the Appropriation Accounts were introduced over a three year period **1994-1996**, following the recommendations of a joint **Department of Finance/Comptroller and Auditor General** working group. Under the **Strategic Management Initiative(SMI)** launched in 1995, (to review and modernise existing systems for decision making and accountability), the enhanced format of the Appropriation Accounts will be subject to **review**. The review will also evaluate an **SMI pilot project** under which the annual accounts of a selected government department have been prepared on a **full accruals basis**.

5.3 *Are consolidated whole-of government financial statements prepared on accrual basis? Or are only departmental or agency-level financial statements prepared on accrual-basis? If so, why?*

National Accounts

The GGB is a consolidated whole-of-government aggregate. The General Government sector is one of seven economic sectors recognised in the ESA. The consolidated transactions of these sectors are assimilated under ESA conventions to produce the *National Accounts*. Preliminary estimates of general government expenditure and revenue aggregates on a national accounts basis are available upon request from the Department of Finance. The definitive estimates are published in *National Income and Expenditure* published annually by the Central Statistics Office.

Appropriation Accounts

The modified accruals basis outlined at 5.1 above applies to the annual accounts of **government departments and offices**.

5.4 *What is the frequency of financial reporting on accrual-basis? Is there more frequent reporting on cash-basis? Which of these reports is independently audited?*

National Accounts

The GGB is produced on an annual basis whereas the EBR is produced on a monthly basis although attention is most closely focused on the end-Quarter returns.

The revenue and expenditure transactions from which the EBR is derived are audited and published in the annual *Finance Accounts*. They are audited in accordance with Section 4(1) of the C&AG (Amendment) Act 1993 which states that

The Minister [for Finance] shall cause the Finance Accounts to be kept, in such form as he may specify..... and shall cause them to be transmitted, not later than the 30th day of June following the end of the financial year to which they relate, to the Comptroller and Auditor General.

The independence of the Comptroller and Auditor General is secured by the constitutional requirement (Article 33) that he or she may not be removed from office save for stated misbehaviour or incapacity and then only by resolutions passed by both Houses of the Oireachtas (Parliament).

Appropriation Accounts

Government departments and offices report **annually** on the basis outlined at 5.1 above.

5.5 *How are "heritage assets", such as museums and national parks, treated for reporting purposes?*

National Accounts

The purchase of such assets by government from the private sector would be recorded as gross fixed capital formation which adds to the expenditure side of the GGB.

Appropriation Accounts

There are **no reporting requirements** at present in relation to heritage assets. Government Departments and Offices are required to list heritage assets internally for control purposes, but no valuations are required.

5.6 *How are government accounting principles, standards and definitions determined? Does the government establish these unilaterally or does it rely on private sector accounting policy boards?*

National Accounts

As stated in 5.1 and 5.2, the GGB is calculated in accordance with the conventions of the European System of Integrated Economic Accounts, Second Edition, 1979 (ESA 79) which is being replaced by the European System of National and Regional Accounts (ESA 95) with effect from 1999. Both ESA 79 and ESA 95 are produced by the Statistical Office of the European Communities (Eurostat). The conventions are followed by all member States of the EU.

Appropriation Accounts

The accounting principles, standards and definitions for the accounts of government departments and offices are determined centrally by the **Department of Finance**. In devising accounting standards, the Departments **consults** with the Comptroller and Auditor General and other government departments and offices.

5.7 Is the budget presented to the legislature on accrual-basis or cash-basis, or both? Does the legislature approve the budget in accrual terms or in cash terms, or both? If applicable, is there a reconciliation between the different basis of accounting used in the budget and the financial statements?

National Accounts

The Budget is presented mainly on a cash-basis with the expenditure and revenue aggregates being those from which the EBR is derived. Even though the GGB is also presented in the budgetary arithmetic, this cannot be derived from the aggregates given. As it is presented as part of the Budget, however, it is fair to say that the legislature approves the Budget in both cash and accrual terms even though it is mainly concerned with cash items.

A reconciliation between the EBR and the GGB is attached. This is part of the documentation which is submitted to the EU Commission twice yearly in accordance with the Maastricht Treaty. The example is taken from the most recent (end-February 1998) return.

It is currently envisaged that in moving to a GGB based budget (from 1999 on), a reconciliation between the EBR and the GGB will be explicitly shown in the Budget. presentation.

Appropriation Accounts

The budget (the Estimates) are presented and approved on a **cash basis**. No reconciliation is required with the Appropriation Accounts which are prepared on a cash basis with additional accruals information.

PUMA/SBO(98)3/ANN

Country: Ireland		Designation (3)	Operator (1)	Year (2)		
Data are in IR£ million				1996	1997	1998
Date: February 1998						
			Semi-final	Estimated	Planned	
Net balance to be Financed by the State	Exchequer Borrowing Requirement (EBR)		-437	-235	15	
(Public Accounts)						
Exclude disbursement of loans and acquisitions of equity:	NIE 154 Loans and Share Capital - Capital expenditure	-	-92	-166	-174	
Exclude repayment of loans and sales of equity:	NIE 139 Loan Repayments (include. privatisation receipts)	-	247	150	102	
Include accounts receivable and payable:	Accruals adjustments: Telecom and An Post Pensions [includes debt (arrears) reduction]	+	104	304	-	
[Note: Tax revenues are generally registered on a cash basis but 1996 adjusted for the reciprocal of the "Swedish" case]	Equal Treatment welfare payments	+	52	1	-	
	Capital Projects financing arrangements	+	-4	-9	-5	
	Advance VAT adjustment	+	119	-	-	
	Departmental balances	+	-26	-11	-20	
	Revenue net receipts	+	6	-2	-	
Include net borrowing or net lending of other Central Government bodies in National Accounts:	Hepatitis C Trustee Fund / Educational Technology Investment Fund	+	-27	-17	28	
	Interest adjustments, include. int. paid ex-Exchequer vs interest paid out by non-Exchequer funds and impact of Eurostat decisions on swaps etc.	+	200	454	196	
	Adjustment for payments through LLF of Principal element owed to SPV (Ulysses plc)	+	-44	-44	-44	
	NIE 132 Gross Trading Income - Trading income of Post Office Savings Bank Fund	+	3	-	10	
	Non-commercial Semi-States - Grant-aided bodies	+	-2	4	18	
	Accumulation vs draw-down of Fund balances - Extra-Budgetary Funds excluding SIF	+	4	-6	-1	
	Other	+	4	-2	0	
Net Borrowing of Central Government		=	-203	453	269	
(ESA National Accounts)						
Include net lending (+) or net borrowing (-) of:	NIE 171 (Gross borrowing) adjusted for redemptions and financial transactions; consolidated with Central Government	+	23	-	-36	
Local government						
Social Security	Accumulation (+) vs draw-down (-) of Social Insurance Fund Balances	+	-10	6	25	
Net Borrowing of General Government	General Government Deficit	=	-190	459	258	
(ESA National Accounts)						
(1) The operator denotes whether the item is added (+) or deducted (-).						
(2) Net receipts are entered with "+", net expenditure with "-". The overall sign of the operation is determined by the combination of the operator and the item sign.						
(3) The NIE codes quoted identify the relevant lines in Irish National Accounts terms (see Tables 19 and 20 of "National Income and Expenditure" published annually by the Central Statistics Office, Dublin).						

6 Capital Budgeting

6.1. *Are appropriations divided between separate capital and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?*

The expenditure Estimates cover both current and capital spending. However, the capital items are extracted and published separately in the Public Capital Programme. In addition certain capital issues under statute, termed Non Programme Outlays, are made. These consist of miscellaneous capital payments including contingent liabilities, refinancing of state companies, and Ireland's capital contribution to international bodies such as EM and the World Bank. The distinction between capital and current expenditure is primarily of economic significance. Capital expenditure is profiled and monitored separately throughout the year.

6.2 *Has there been a change from having a capital budget to not having a capital budget, or vice versa in the past 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?*

The capital budget has been separately identified for over 30 years. Prior to 1974, the capital budget set out both the spending allocations and the financing arrangements for capital expenditure. Since 1974 it has been published as the Public Capital Programme, consisting only of the capital spending allocations extracted from the consolidated budget. The financing arrangements for the capital budget are now set out as part of the overall Budgetary statistics. There are no plans to change this arrangement.

Please answer questions 6.7 - 6.12 if capital and operating expenditures are contained in a single consolidated budget.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they treated otherwise? Does this differ by type of capital expenditure (e.g. purchase of capital used by government, grants to lower levels of government, physical and non physical capital)?*

Capital expenditures are identified separately within the Estimate (schedule of allocations) of each Department (Vote). If only part of an allocation in a Vote (subhead allocation) consists of capital expenditure, this is identified by footnote. The type of capital expenditure -purchase of capital used by Government, grants to lower levels of Government, and physical and capital - are all classified in the same manner in the Departmental Vote. Capital Non-Programme Outlays (NPO's), are identified separately in the Budgetary tables. (See 6. 1)

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

The Abridged Estimates Volume and Summary Public Capital Programme are published as one document, with the Summary PCP consisting of a separate chapter setting out the capital allocations of the budget (see 2.4). The final Public Capital Programme contains a more detailed breakdown of these capital allocations, taking on board any additional allocations in the annual Budget statement. The final PCP is published as a separate document. Capital expenditures are identified in the Budget tables. The capital tables are based on a summary of expenditures. Assets registers are maintained in central Government Departments and a statement of assets and liabilities is produced by these Departments with their year-end accounts.

6.9 *Are there any separate (long term) plans for capital expenditure (e.g. infrastructure development) that are used for reference in the annual budget process? Please give examples.*

At present, there are no separate plans for capital expenditure. While any proposals for the funding of infrastructure development which differ from the traditional departmental allocations are examined on their merits, there are presently no separate plans for capital expenditure in relation of such development. However, the publication in the Budget of 3-year "no policy change" spending projections by Departmental Vote group, as part of the introduction of multi-annual Budgeting, will allow for more accurate planning of future investment needs.

Infrastructure development in the context of the EU Community Support Framework for Ireland is funded by means of matching capital allocations under the relevant departmental headings. Operational Programmes are prepared for each of the Sectors co-funded by the EU e.g. the Operational Programme for Transport 1994 - 1999 sets out the Strategy for development of roads, public transport, ports and airports in Ireland, in that period.

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g. by special earmarked taxes)? Please give examples.*

In general, capital expenditures are not financed differently from other expenditures. However there have been some developments in this area. From 1998, motor taxation will be put into a local government fund out of which expenditure on non-national roads will be funded.

6.11 *Does the operating budget include any charges for the use of capital (e.g. depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

The operating budget does not include any charges for the use of capital along the lines suggested.

6.12 *Does the legislature provide up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? what is the rationale for the technique applied?*

Funding for capital projects is provided incrementally year by year until the project is completed. However, subject to the agreement of the Minister for Finance, provision is made in the existing 3-year no-policy-change projections for the future cost of capital projects, including the matching funding required for EU funded projects. The rationale for this technique is to ensure that provision is made only for that expenditure which can be carried out in a calendar year, while at the same time giving Departments a commitment, on an approved no-policy-change basis that the remaining cost of capital projects will be met in subsequent years, once the Minister for Finance has been satisfied that these costs are justified.

ITALY

1. BUDGET RESULTS

1.1 See “The Italian Budget in brief”

1.2 “The Italian Budget in brief”

2. PARLIAMENT ROLE

2.1 The Parliament can modify the budget. The only restriction is the financial covering principle (Constitution, article no. 81; and law no. 468/1978) both for new or higher expenses and shortfall in receipts.

2.2

a) The Parliament usually modifies the draft budget submitted by the Government.

b) The number of the amendments is often high, although they usually have a limited amount.

c) The number of the approved amendments too is typically high although their amount is not remarkable.

d) In 1997 the Parliament passed the reform of the State budget, which involved an important change: the primary budget units are now the fundamentals of the new budget, on which the parliamentary vote is expressed instead of the balance-sheet items. This allows the Parliament to evaluate more easily the resources available and its utilization.

2.3 The State budget is made up of one revenue estimation and several expenditure estimation for each ministries. The public bodies have got their own budgets separated from the State budget, from which they receive transfers because of their partial tax imposition power.

2.4

d) The Government has to submit to the Parliament the Economic and Financial Planning Document for the next three years within the 15th of May; in this document primary objectives are fixed. The Government has to submit to the Parliament the Budget Bill (based on legislation in force) for the year within the month of July of the previous year. The financial Bill and the accompanying provisions for the budget adjustment is submitted within the month of September. The Parliament approves the budget within the month of December. The budget adjustment is approved within the next month of June.

- e) The budget parliamentary commissions examine the budget documents and express valuations about the Government proposals. The sectorial standing commissions (Environment, Defence, Foreign Affairs, etc.) evaluate the programmes concerning their own sectors.
- f) The parliamentary commissions can ask the heads of government ministries and agencies (President of the Audit Court, Paymaster General, Chief Executive of the Treasury, etc.) to take part in the meeting and to supply information.
- g) Public is not allowed to attend budget and sectorial commissions meetings. However, citizens can look into the meeting reports.

2.5 The parliamentary commissions (budget commission and finance commission) are supported by Secretary's Offices and by Budget Research and Development Departments of the Chamber of Deputies and of the Senate in their tasks about examination of the Government proposals.

2.6 The Government establishes its objectives in the Economic and Financial Planning Document (net borrowing, etc.). These objectives, as approved by Parliament, affect parliamentary decisions concerning the budget.

2.6 The Ministry of the Treasury, Budget and Economic Planning submits to the Parliament the cash statement of the previous year within the month of February, in which the objectives for the current year and the outputs/outcomes of the previous year are illustrated. The next document is the Quarterly Cash Statement, in which the overall results of the public finance for the current year will be showed each three months. The same Ministry has to submit to the Parliament the Report on economic situation within the month of March.

2.7 All the appropriations are subject-matter of parliamentary vote, nevertheless only a small amount of them is established in approving the budget. For the most part of their amount (90-95 per cent) the budget acquires the decision already taken in previous expenditure laws.

2.8 The supplementary budget is submitted annually to the Parliament within the month of June. Usually, the Parliament approves it within the month of September.

3. FISCAL RELATIONS WITH LOWER LEVELS OF GOVERNMENT

3.1 The Regions take part in the establishment of the budgetary strategies through consultation of Regions' representatives. As provided for by the law, the Economic and Financial Planning Document and the Budget Bill are transmitted to the Regions. The Regions express their opinion about these documents through "State-Regions Commission".

3.2 Regions, Provinces and Municipalities benefit from financial autonomy. Forms and limits of this autonomy are established by law and it is coordinated with the State finance. The National Government exercises legitimacy control about regional laws for the adoption of the regional budgets, and the Regions exercise legitimacy control about local government units budgets.

3.3 Public territorial bodies can incur debts through ordinary procedure only for financing of investments. The ceiling on indebtedness is different according to the kind of body. Particularly, in the case of Regions the annual total amount of loans and bonded loans amortization cannot exceeds limit of

25 per cent of tax revenues, while in the case of local government units the annual total amount of interest on loans and bonded loans amortization cannot exceed limit of 25 per cent of current revenues.

3.4 The national Government assists lower levels of government in financial difficulty through transfer of funds (e.g.: National Health is partially financed by the State Budget; in case of difficulty, the national Government can intervene with integrative financing. In addition to ordinary transfer of funds from the State to the Regions, Regions can exert their regained tax imposition power raising the price of petrol and car taxes in order to cure the financial difficulties of local health services).

4. MANAGERIAL FLEXIBILITY

4.1

a) Two appropriation lines are voted on in the annual budget bill: on an accrual basis and on a cash basis. Since 1997 (for the 1998 budget) the Parliament vote on 1,000 “primary budget units” instead of the 5,000 balance-sheet items. The primary budget units refer to homogeneous areas of activity within each ministry and are aggregates wider than the balance-sheet items. The balance-sheet items are now used only for management and report purposes.

b) In this new kind of State budget, drawn up on the basis of the primary budget unit, expenses are entered according to their nature instead of their purpose. The personnel expenses and the expense for goods and services are included inside the primary budget unit named “Funzionamento” (= working), in which they are distinctly pointed out although they are not subject-matter of parliamentary vote. In addition to this version of the budget, the “function-objective State Budget” contains expenses items concerning objectives and functions of the State.

4.2 Allocations can be moved from one balance-sheet item to another provided that these items belong to the same primary budget unit and those allocations are not binding character expenditures. Chief executive can reallocate financial resources, but the Parliament only can move allocations from one primary budget unit to another.

4.3 Institutional services cannot be contracted out: they must be supplied exclusively by the State. Other kind of services, deemed as secondary (cleaning, etc.), can be contracted out.

4.4 The unused appropriations are savings (economies). The capital outlays can be kept in the budget for three years.

4.5 Future appropriations can be used in advance by authority received through law.

4.6

a) An annual report shows the staff situation in the public administration. Staff requirement in each government is fixed on the basis of this report. A staff triennial planning is established for the central ministries.

b) Personnel is engaged according to the vacancies pointed out in the staff list of each government. This personnel can be discharged for causes provided for by public employment regulations, which is now changing in order to make it similar to that of the private sector.

c) The Minister can substitute Chief executives in case they don't achieve proposed goals.

5. ACCRUAL ACCOUNTING AND BUDGETING

- 5.1 The financial State budget is drawn up both on an accrual-basis and on a cash-basis.
- 5.2 Till 1978 the State budget was on an accrual-basis only. Since 1979 it is on both accrual and cash basis.
- 5.3 Consolidated whole-of-government financial statements are prepared on a cash-basis.
- 5.4 Financial reports on cash-basis are drawn up every three months (Relazioni trimestrali di cassa). With regard to the accrual-basis we make reference to the budget (preliminary, adjustment, final), which have different purposes and are drawn up annually.
- 5.5 “Heritage assets” are entered in the State property account annually, which is drawn up in parallel with the final budget.
- 5.6 Government accounting principles, standards and definitions are determined through law. A new kind of economic budget for cost analysis, patterned after private sector budget regulated by civil law, is being built (depreciation, receivables, deferred charges and income, remainders and surplus).
- 5.7 The State budget is presented to and approved by the Parliament both on accrual and on cash-basis.

6. CAPITAL BUDGETING

- 6.1 The State budget is single and current expenditures are divided from capital expenditures. Current expenditures are showed in primary budget units concerning working expenses, intervention expenses and pension expenses; they are appropriated to the supply of public utility services, as well as to redistribution of income for not directly productive purposes. Capital expenditures are showed in primary budget units concerning direct and indirect investments, shareholding, capital contribution and granting of credit; they directly or indirectly affect national capital formation.
- 6.7 Capital expenditures include investment outlays and are shown in each ministry estimation. In the financial budget, capital expenditures are divided into direct and indirect investments, shareholding, capital contribution and granting of credit.
- 6.8 Each estimation contains synthetical tables.
- 6.9 Plans for capital expenditures covering lapses of more than three years are provided and are taken into consideration in the annual budget process.
- 6.10 It doesn't exist any connection between taxes and capital expenditures into the Italian system.
- 6.11 Expense for interest on national debt is entered in the State budget under a special aggregate (“National Debt Burden”). Depreciation is included in common burdens.
- 6.12 The State budget is drawn up both on an accrual and cash basis, and it goes side by side with a multi-year budget on an accrual basis only, in which authorization for capital expenditures predetermined by the law are entered.

JAPAN

1. Fiscal Performance

1.1 Please outline the government's fiscal performance in the last fiscal year, in nominal terms and as a percentage of GDP?

Figure 1 Fiscal Balance (Table)
(%)

Fiscal Year	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
General government financial deficit (excluding social security)	6.1	5.9	6.8	6.6	7.0	6.7	6.5	6.1	5.6	4.6	3.9	3.4	2.1

Fiscal Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
General government financial deficit (excluding social security)	1.0	0.6	0.0	0.3	3.3	4.5	5.7	6.7	6.6	(5.9)	(4.7)

1.2 Please outline the government's medium-term fiscal policy objectives, in nominal terms and as a percentage of GDP?

The Fiscal Reform Act was established last fall.

Figure 2 Points of the Act

1. Fiscal Deficit	The fiscal deficit in percent of GDP, currently around 6%, should be brought down to 3% or less by fiscal year 2003 (Section 1, Article 4, Chapter 1)
2. Special Deficit-financing Bond Issues	the amount of the bond should be reduced every fiscal year and its issuance should be terminated by fiscal year 2003. (Section 2, Article 4, Chapter 1)
3. Spending Limits on Major Programs	For fiscal year from 1998 to 2000 (defined as the intensive reform period), the magnitude of expenditures in major programs is subject to the numerical "Cap". (Chapter 2)
4. Guideline on the Fiscal Policy	Fiscal policy will be conducted in such a manner that sum of taxes, payroll contributions and fiscal deficit as percentages of national income will not exceed 50%. (Section 1, Article 6, Chapter 1)

2. Role of the Legislature

2.1 *Are there any restrictions on the ability of the legislature to modify the budget proposed by the government? If so, what form do these take?*

The Diet can modify the budget provided that it is consistent with the constitutional framework, i.e. the Cabinet (Administration) is empowered to develop and propose the budget to the Diet.

2.2 *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years. Does the legislature take a more active role in the budget process now than it did 10 years ago? If so, why?*

When the ruling party dominates the majority, as has been the case in Japan, the proposed budget is normally approved intact.

The institutional framework for the role of legislature in the budget process has not changed after the War. Lately, however, there are arguments that the Diet should play more active role in deliberating the budget.

2.3 *Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?*

The central government's budget consists of the General Account budget and 38 special account budgets. These budgets are submitted, along with the budgets of 11 government-affiliated financial agencies, to the Diet for approval.

2.4 *What are the key steps taken by the legislature in considering the budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable?*

After deliberation of the budget at Budget Committee, it is discussed on the sectoral basis, where the individual sub-committee, currently 8, in charge of the legality and appropriateness of the appropriations in each sector.

Then, the Budget Committee again is called to sum up and prepare the final proposal to the House.

Do heads of government ministries and agencies typically testify at committee meetings?

Yes

Are committee meetings typically open to the public?

Yes

2.5 *What resources (e.g., staff) are available to the legislature for reviewing the budget?*

Each House has the staff and budget for reviewing the Budget.

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditures items? If so, please describe.*

The Fiscal Reform Act, established last fall, provides that the aggregate expenditure of major government programs are subject to the numerical guideline. Obviously, both the Administration and Legislature are supposed to comply with this.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes?*

The Administration provides the Diet with the relevant information on program output on adhoc basis.

2.8 *What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programs)?*

All budget appropriations are voted annually.

2.9 *Are supplementary budget bills typically enacted during the course of a fiscal year?*

Yes

If so, what are the key steps in this process?

(The words "key steps" are unclear to us)

How many supplementary bills have there been in each of the past three years?

FY 1995:3 supplementary budgets

FY 1996:1 supplementary budget

FY 1997:1 supplementary budget

3. Fiscal Relations with Lower Levels of Government

3.1 *Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?*

Attachment 1

3.2 *Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?*

Attachment 1

3.3 *Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?*

The Ministry of Home Affairs is empowered to approve, in consultation with MOF, the issuance of Local Government Bonds

3.4 *If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.*

If financial difficulty is foreseeable, Local Government Grant (Tax) may be increased to address the problems in Local Government.

4. Managerial Flexibility

4.1 *How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are there separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?*

About 1,800 appropriation lines are voted on by the legislature in the annual budget bill. And they all consolidated into one appropriation for each program.

4.2 *Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations? Are there specific prohibitions against reallocating appropriations from transfer programmes to cover administrative costs?*

Appropriation items can be moved from one item of spending to another with Prior Diet approval, whereas lower level items can be moved with MOF's approval.

4.3 *Can managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?*

No.

4.4 *If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?*

There are four situations in which unspent appropriations can be carried forward to the following fiscal year.

- a) expenses previously approved can be carried over to the following fiscal year (carried over expenses);
- b) where liabilities have already been incurred in the current fiscal year (carried over expenses);
- c) yearly expenditures are approved as continued expenses;
- d) on the specific provisions of the law of special accounts (e.g. the Foreign Exchange Fund Special Account)

In cases a) and b), approval of the Finance Minister is required. In case d), no such approval is required and the competent minister can carry forward by notifying the Finance Minister and the Board of Audit.

4.5 *Are there any arrangements in place where managers may borrow against future appropriations. If so, please describe applicable maximums and other conditions.*

No.

4.6 *Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? What flexibility do managers have in setting the wages and other terms of employment for their staff? If different rules apply to different categories of staff, please specify.*

The basic law concerning national civil service personnel is the Total Staff Number Law. This law sets upper limits on the total number of “regularly working personnel needed to fill positions where constant placements are needed” for the purpose of executing the responsibilities of the various ministries and agencies.

Hiring and firing staffs, wages and other terms of employment are provided by Civil Servant Law and other relevant provision. As for wages and allowances for Civil Servants are regulated by Allowance Control Act.

5. Accrual Accounting and Budgeting

5.1 *What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual-basis. Do some types of government organisations (e.g., agencies, enterprises) use accrual-basis whereas others do not? If so, please describe. Are certain transactions (e.g., interest on government debt, civil service pension plans) treated on accrual-basis whereas other transactions are not? If so, please describe.*

Government’s Accounting is basically based on cash-basis.

5.2 *Has the government’s basis of accounting moved from cash-basis to accrual-basis in the recent past? If so, please describe.*

No.

6. Capital Budgeting

6.1 *Are appropriations divided between separate capital and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?*

Capital and current expenditures are classified, though they are consolidated in a single budget.

6.2 *Has there been a change from having a capital budget to not having a capital budget, or vice versa, within the last 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?*

Framework for division between capital budget and current budget has been unchanged since the Public Finance Law was enacted in 1947.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they treated otherwise? Does this differ by type of capital expenditure (e.g., purchase of capital used by the government, grants to lower levels of government, physical and non-physical capital)?*

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

Capital expenditures are incorporated in each spending program, and not separately presented in the Budget Document. They are identified by specific codes.

6.9 *Are there any separate (long-term) plans for capital expenditures (e.g., infrastructure development) that are used for reference in the annual budget process? Please give examples.*

Government has 15 plans. For example, we have The Basic Plan for Public Investment from FY1995 to FY2007, which includes an aggregate public investment of approximately ¥630 trillion projected for decade.

Attachment 2.

6.10 *Are some capital expenditures financed differently from expenditures in general (e.g., by special earmarked taxes)? Please give examples.*

So-called “Golden rule” applies, where borrowing is limited to finance the capital expenditure. (Article 4 of the Public Finance Law prescribes that bond issuance is limited raising funds for financing public works equity investment and loans.)

6.11 *Does the operating budget include any charges for the use of capital (e.g., depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

6.12 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

For the projects requiring multi-year funding, several budgetary scheme are applicable.

i.e. Continued Expenses
Contract Authorization
(Attachment 3)

Figure 3 The "Cap" on Major Expenditures

	FY1998 budget	The intensive reform period (three years till FY2000)
Social security spending	The increase of over 800 billion yen, which is projected under the current policy basis will be greatly restrained through cutbacks of over 500 billion yen	To be restrained to a level lower than its inevitable increase (approximately 2% of the total) stemming from the aging of the population structure.
The public investment budget	Not to exceed an amount equivalent to a 7% decrease from the FY1997 budget.	To be decreased each fiscal year.
Educational budget <ul style="list-style-type: none"> • Transfers to the special account for national schools • Subsidies for private educational institutions 	To be strictly curbed To be strictly curbed	To be kept to no more than that in the previous year To be severely curbed by holding operating fee subsidies for current expenditures at or below the level of the previous year.
Defense-related expenditure	To be held to no more that that in FY1997	To be held to no more than that in the previous year.
The official development assistance (ODA) budget	Not to exceed an amount equivalent to a 10% decrease from the FY1997 budget	To be decreased each fiscal year
The staple food expenditure		To be kept no more than that in the previous year
The budget for the promotion of science and technology	To be increased by no more than approximately 5%	Increases will be greatly restrained
The budget for energy measures	To be strictly curbed	To be held to no more than that in the previous year
The budget for small and medium enterprise measures	To be strictly curbed	To be held to no more than that in the previous year
Local government general expenditure in the Local Public Finance Program	To be made lower than that in FY1997	The growth rate when fiscal consolidation target is being pursued will be curbed in line with the national growth rate, and will be kept at no more than the nominal growth rate
Subsidies Subsidies for local public organisation except institutional subsidies Subsidies for business organizations except legally-based subsidies		To be reduced by 10% for each ministry and agency in each fiscal year. To be reduced by 10% for each ministry and agency in each fiscal year.
Other		Expenditures other than those for which numerical targets were established above will be strictly restrained, i.e., will not exceed those in the previous year.

Attachment 1

Local Government Finance

1. The Relationship between Central Government and Local Government

Although it is desirable for local authorities to meet their expenditures through their own revenues, there is a very large difference in the fund-raising ability of local authorities. Therefore, the central government takes various measures, such as local allocation tax, central government disbursement and local transfer tax, in order to adjust those differences in local government finance from the viewpoint of equalizing of tax burden and assuming a certain standard of administration services among Japanese people. (Chart III-14)

Generally, the central government takes the following measures in support of local governments.

(1) Local Allocation Tax (L.A.T)

The local Allocation Tax system is the one in which the central government, in order to distribute to the local governments necessary source of revenues to keep the adequate level of public services, grants a certain portion of financial receipts collected as national tax. The amount for the respective local governments is calculated in proportion to their lack of revenues, taking into consideration the standardized financial receipts and demands of individual local governments.

The total amount of the L.A.T. is fixed at 32 per cent of the total yields of the income tax, corporation tax and liquor tax, 29,5 per cent of the consumption tax, and 25 per cent of the tobacco tax.

The L.A.T. was so created as to ensure equalization of the local government revenues and to guarantee planned local government administration, and this ratio of the major five national taxes is fixed by the L.A.T. as revenues of local authorities as a whole. Each local authority is free to spend the sum allocated to it. Therefore, the system does not impair the autonomy of local authorities in carrying out their functions.

The L.A.T. is divided into the regular allocation tax (R.A.T.) and special allocation tax (S.A.T.). The amount of the former is 94 per cent of the total L.A.T. and the latter 6 per cent. The central government allocates the total amount of R.A.T. to local governments whose standard levels of revenues are below those of expenditures so as to supplement the shortage of revenues. The S.A.T. is granted to local authorities according to their special financial needs (e.g. temporary expenditure due to natural disaster) that cannot be satisfied by the allocation of the R.A.T.

(2) Local Transfer Tax

The Local Transfer Tax is collected by the national government and transferred to local governments. The tax is composed of local road tax, a half of petroleum gas tax, 2/13 of aviation fuel tax, 1/4 of motor vehicle tonnage tax and special tonnage tax. The Local Transfer Tax, which is not put into the coffers of the General Account, is deposited directly into the Special Account for the Allotment of Local Allocation Tax and Transferred Tax, and is distributed to local governments from that account.

(3) Central Government Disbursement

There are a number of ways in which disbursement for specific uses from the central government to local governments can be made. They are usually divided into three categories:

- a) the Central Government obligatory share in certain local authority expenses such as compulsory education which is required to be financed by the Central Government for their smooth implementation, public work projects which should be implemented by the local authorities in accordance with national plans, and disaster-related projects,
- b) disbursement to local authorities as agents of the Central Government in relation to the national task in various field of nation-wide administration (for example, operations of national elections or national statistics), and
- c) the grants-in-aid which is provided for by the Central Government with a view to supporting, encouraging and promoting the carrying-out of the functions of local governments.

Many items of the disbursement are relating to social welfare, education and public works. The system of central government disbursement has proved effective in enabling local authorities to maintain their administration at a certain level and also to gain sufficient revenues for large-scale construction works including restoration from natural disasters.

2) Local Public Finance measures of FY 1997

Along with the budget compilation procedure, the Central Government forms basic projection for the local public finance balance every fiscal year prior to its beginning. According to this projection, the Central Government takes necessary measures to balance the revenue and expenditure in case there is any gap between them.

(Projection for the local fiscal balance in FY1997)

Under the projection made by the Central Government for the local fiscal balance in FY1997, the effects of introduction of local consumption tax in the midst of year and the ordinary balance excluding these effects are separately forecasted as follows.

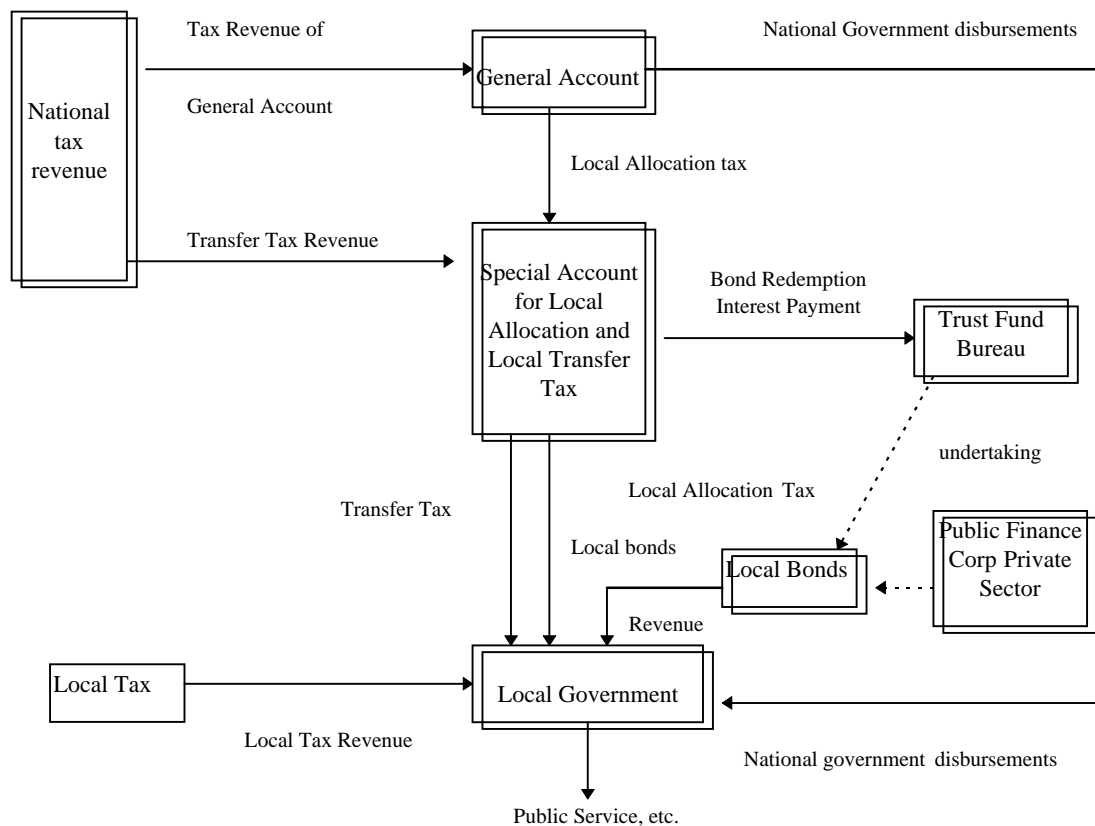
With regard to the effects of introduction of local consumption tax in the midst of year, because of the introduction of local consumption tax on April 1, 1997, the total local consumption tax revenues will decrease by ¥1,200 billion.

With regard to the ordinary balance excluding these effects the Central Government forecasts a revenue shortfall of about ¥4,654,4 billion for the local fiscal balance because of generally depressed tax situation.

(Local Public Finance measures of FY1997)

According to the projection, the Central Government takes necessary measures to cope with these revenue shortages. The decline in revenues stemming from tax cuts will be compensated for by the following measures.

Chart III - 13 The System of Local Allocation Tax and Money Flow



The decline in total local consumption tax revenues will be entirely compensated for by issuing local government bonds for deficit-financing (non-investment purpose).

The revenue shortfall in the ordinary balance will be covered by increasing Local Allocation Tax (¥2,664.4 billion) from the Special Account for the Allotment of Local Allocation Tax and Transfer Tax (See Note), and by the additional issuance of local construction bonds (¥1,990 billion)

Note: The measures to increase the total amount of Local Allocation Tax revenues (¥2,664.4 billion) are as follows:

- (i) additional appropriation from the General Account (¥360 billion)
- (ii) additional borrowing through the Special Account etc. (¥2,304.4 billion).

* Repayment of the borrowing through the Special Account (¥972.2) is made by the Central Government

(Total amount of Local Allocation Tax)

Allocation from the General Account of the Central Government is ¥15,481.9 billion, from which ¥525.9 billion is to be used for interest payments on the borrowing of the Special Account. Another ¥1,769.0 billion is compensated by the borrowing of the Special Account. As a result of these measures, the total amount of Local Allocation Tax revenues (in terms of outlays from the Special Account to the local governments) will be ¥17,127.6 billion

Local Public Finance Program

Following the above measures, the Central Government makes an official estimation of the total expenditure and revenue of all the local governments. These guidelines and estimation are consolidated into the every year's Local Public Finance Program, which clarifies the balance of local public finance by calculating the standardized revenue and expenditure. This is an important indicator for the fiscal management by local governments in every fiscal year.

The revenues and expenditures of Local Public Finance Program for FY1997 are ¥87,059.6 billion, which are slightly larger than those of central government's General Account. The composition of the local government's total revenue and expenditures is shown in Table III-16.

Table III-15 Comparison of Central and Local Governments Fiscal Position in FY1997

	National Budget (General Account)	Local Government (Local Public Finance Program)
Total amount	77,390.0 billion yen	about 87,059.6 billion yen
The index figure of total amount (national budget total amount = 100)	100	112.5
The growth rate over the previous year	3.0%	2.1%
Bond issues	16,707.0 billion yen	12,128.5 billion yen
The ratio of bond issues to total amount	21.6%	13.9%
Debt service	16,802.3 billion yen	9,640.3 billion yen
The ration of debt service to total amount	21.7%	11.1%
Bond Outstanding	about 254 trillion yen	about 108 trillion yen
[Special Deficit financing bonds]	[about 83 trillion yen]	[about 6 trillion yen]

Table III - 16 Local Public Finance Program

(billion yen, %)

	FY1996	FY1997	Percent change
Revenues			
• Local taxes	33,781.5	37,014.3	9.6
• Local transfer tax	1,998.6	1,073.3	-46.3
• Local allocation tax	16,841.0	17,127.6	1.7
• Subsidies from the national government	13,066.2	13,258.9	1.5
• Local government bond issues	12,962.0	12,128.5	-6.4
• Rent and fees	1,477.4	1,507.7	2.1
• Miscellaneous	5,158.1	4,949.3	-4.0
Total	85,284.8	87,059.6	2.1
Expenditures			
• Wages and salaries	22,883.4	23,216.3	1.5
• General administration	17,510.4	17,983.6	2.7
• Local debt service	8,862.3	9,640.3	8.8
• Repairs and maintenance	934.7	961.3	2.8
• Investment Capital expenditures	31,065.2	31,069.2	0.0
• Others	4,028.8	4,188.9	4.0
Total	85,284.8	87,059.6	2.1

(1) Local Government Revenues

Major sources of revenues are local taxes, central government disbursements and the local allocation tax.

Local taxes, which represent a major part of local government revenues (42.5 per cent of total revenue in FY1997), are ¥37,014.3 billion, 9.6 per cent increase over the previous year. The local allocation tax is ¥17,127.6 billion, 1.7 per cent increase. Central government disbursements, which constitute the revenue source for such nationally funded programs as social insurance (for example, public assistance), public works, and compulsory education, are ¥13,258.9 billion, 1.5 per cent increase. The total amount of local bonds issuance amounts to ¥12,128.5 billion, 6.4 per cent decrease.

(2) Local Government Expenditure

About 83 per cent of expenditures is accounted for by investment (public works) expenditures, expenditures on wages and salaries, and general administration expenses.

With a view to promoting facilities related to living environment with giving consideration to the Basic Plan for Public Investment, investment expenditures are ¥23,216.3 billion, 1.5 per cent increase over the previous year. General administration, which covers the expenses necessary for local governments to provide a wide range of public services, such as education, social welfare, police and fire protection, is ¥17,983.6 billion, 2.7 per cent increase over the previous year.

Attachment 2

Long-term public works programs will be reviewed as follows

- a) Housing program, including public sector participation, will be reviewed to reflect future housing policy, based on changes in the conditions under the plan on which housing was originally based and the aims of fiscal structural reform.
- b) Road improvement and slope failure prevention program, which are scheduled to be completed at the end of FY1997, will be appropriately revised based on the five principles of fiscal structural reform and with consideration to substantial reductions in the Basic Plan for Public Investment.
- c) Other long-term programs will be maintained in line with the basic idea behind the establishment of those programs while, based on the aims of fiscal structural reform, time-frame of the plan will be extended four years in the case of the 10-year land improvement program and two years in the case of other plans. Thus, it will enable substantial reductions in the size of those investments. In extending the term of these programs, their content will also be reviewed, including prioritizing and streamlining projects, as necessary.

Attachment 3

Continued Expenses

Continued expenses contain the items for which the government makes payments over a period of several years, the maximum period being five years. These payments are for projects in construction, production, and other project plans. Prior Diet approval is required for a continued-expense item, and the Diet specifies the total amount of expenses and annual allotments. However, continued expenses are used only for the construction of large-sized guard ships and submarines of the Defense Agency in recent years.

Contract Authorization

The contract authorization system allows the government to contract for projects in which it is necessary to incur a liability within a given fiscal year and make all or part of the outlay in subsequent years. Prior approval of the Diet is needed to incur such a liability. The government must also appropriate actual outlays for the year in its annual expenditures budget.

KOREA

1. Fiscal Performance

1.1 During the last fiscal year, which started on January 1st and ends on December 31, the consolidated budget of the central government grew by 15.1 per cent. The consolidated budget balance showed a deficit of 0.2 per cent of GDP. The economic slowdown resulted in the weak growth of tax revenues.

Further slow down of the economy is expected for the current year. Tax revenues will grow at a slower pace, despite recent measures to raised an additional 4.3 trillion won to finance the restructuring of the ailing financial sector and to support the unemployed.

Outline of the Fiscal Performance of the Central Government ⁽¹⁾

(billion won, per cent)

	1995	1996	1997 ⁽²⁾	1998 ⁽³⁾
Consolidated Budget	71.6	84.4	97.1	110.0
Growth Rate	(18.6)	(17.9)	(15.1)	(13.3)
as % of GDP	(20.3)	(21.6)	(22.8)	(24.2)
Budget Balance	1.2	1.1	Δ 0.8	Δ 7.8
as % of GDP	(0.3)	(0.3)	(Δ 0.2)	(Δ 1.7)
Tax Revenue	56.8	65.0	74.0	75.6
as % of GDP	(16.1)	(16.7)	(17.4)	(16.7)
GDP (current prices)	352.0	398.8	421.0	
Growth Rate	(15.0)	(10.8)	(8.0)	
Real GDP growth	(8.9)	(7.1)	(5.5)	

(1) Includes non-financial government enterprises

(2) Preliminary

(3) Projected

1.2 The Korean government does not publish formal medium-term fiscal targets. An implicit target is to achieve a balanced budget, as has been done since the mid-1980s, while keeping appropriate levels of investment in key sectors such as social infrastructure and supporting rapid restructuring of the economy, especially in the financial sector. Because of the immaturity of the social security system, the cyclical part of the government expenditure is very small. Given the extraordinary nature of the current economic downturn, at present, extra efforts are being made to provide supports to the unemployed and the poor. The government seeks to raise revenues by reducing tax expenditures and privatizing public enterprises. The stabilisation policies will continue to be effective over the medium term in order to further improve external balance and to maintain price stability.

2. Role of the Legislature

2.1 There is no limit on the amount by which the legislature can reduce the budget. But the legislature is required by the Constitution to ask approval from the government when increasing the budget.

2.2 The legislature usually makes various modifications to the budget proposed by the government before finalizing it. Modifications are made through talks between government and opposition parties. When an agreement is reached and finalised, the budget is approved. The total amount of changes, however, has typically been very small. There have been no significant changes in the role played by the legislature in the budget process.

Budget Amendments (per cent of the original budget)

	1995	1996	1997	1998
General Account	- 0.3	- 0.1	- 0.3	0.5
Special Accounts	- 0.5	0.03	- 0.4	0.2

2.3 One budget bill covers the whole appropriations of the government. The budget is composed of one general account and twenty two special accounts.

2.4

Key steps in the budget consideration

March	The Korea Planning and Budget Commission (KPBC) sends to each ministry directions for budget request.
May	Ministries send budget requests to the Office of National Budget (ONB).
August	A draft budget is prepared by the government and discussion between the government and the ruling party begins.
October	Authorized by the Cabinet and the President, the budget is sent to the national Assembly by October 2nd. In mid-October, the Special Committee on Budget and Accounts begins deliberation on the proposed budget. At the start of the deliberation, the minister of Finance and Economy delivers an explanation on the budget to the national Assembly. Ministers are typically requested to testify at committee meetings. Meetings are normally open to the public.
December	The budget is approved by the Special Committee on Budget and Accounts and then by the national Assembly by december 2nd.

2.5 The legislative and budgetary counseling office in the National Assembly Secretariat provides expert advice to the members of the National Assembly during the budget deliberations. But its role is weaker than its counterparts in other countries like the Congressional Budget Office in the United States.

2.6 There are no explicit aggregate expenditure ceilings on individual expenditure items.

2.7 Various information is provided to the legislature on programme outputs and outcomes. But the government has not yet established a systematic procedure to measure performance of individual ministries, like those found in the United States, Canada or New Zealand.

2.8 In addition to one general account and special accounts which are voted in the National Assembly, the government manages thirty five public funds and thirty nine non-public funds. Public funds include the National Pension Fund and other social insurance funds. Their operational plans, which are authorised by the cabinet, are presented to the National Assembly, but do not require legislative voting. Non-public funds are not supervised by the National Assembly. Their operational plans require approval by relevant ministries only. Excluding inter-fund transactions, expenditure and net lending of all public funds amounted to 13.2 trillion won.

2.9 One supplementary budget was enacted in each of the last three years, as was typical in previous years. The budget process is much the same as the original budget.

3. Fiscal Relations with Lower Levels of government

3.1 The Economic Council of the Metropolitan and Provincial Government provides a channel to coordinate fiscal and other policies of the central and local governments, such as the medium to long-term economic and social development plans and medium-term local fiscal plans. It is headed by the Deputy Minister of Economy and Finance, and is composed of eleven deputy ministers from the central government and sixteen deputy premiers from local governments. Regular meetings are held twice a year. The Budget Consultation Committee, which is comprised of sixteen deputy premiers from local governments, is another formal mechanism to consult with lower levels of government.

3.2 Local budgetary matters are left to the local governments since 1991, when local assemblies were established nationwide and locally elected premiers were placed into office.

3.3 Local governments should ask approval from the central government (Ministry of Government Administration and Home Affairs) when issuing bonds.

3.4 Local governments in Korea depend heavily on transfers from the central government. Other than predetermined grants and subsidies, the central government has no role in assisting distressed local governments. There has been no incidence of serious financial difficulty on the part of local governments.

4. Managerial Flexibility

4.1 The budget is composed of one general account and twenty two special accounts. The budget structure is made of the following:

- chapters;
- sections;
- paragraphs;
- subparagraphs;
- clauses.

The legislature only reviews and approves chapters, sections, paragraphs. Salaries and other operating expenditures are consolidated into one appropriation for each programme. But within the running cost

appropriation, it is not generally possible to transfer money from salaries to other running costs or vice versa because of the unified pay schedule and the fixed allocation of positions within government.

4.2 Those appropriations that need voting by the legislature cannot be moved from one item to another without authorisation from the legislature. The transfer between the items that are below the voting level needs approval from ONB unless exempted specifically.

It is generally impossible to reallocate appropriations from transfer programmes to cover administrative costs but some reallocations are allowed after approval by ONB.

4.3 Contracting out is allowed only in very limited cases such as research, development and janitorial services.

4.4 Managers cannot carry over unused portions of the appropriation to the next year, except in very limited cases such as when the carry-over was approved by the legislature and when the contract was taken but the actual cash expenditure could not be made due to uncontrollable events.

4.5 Borrowing against future appropriations is not allowed.

4.6 Personnel management is mostly centralised in the Korean government. The total number of full-time employees and their positions in each organisation are specified in the executive order of the President. Managers have little authority to fire or hire staff and to set wages and other terms of employment.

But the wages and other terms of contracted staff are determined by the hiring contract.

5. Accrual Accounting and Budgeting

5.1 The government uses several accounting bases that are suitable for each of the fiscal areas divided by the extent of control by the public and other characteristics as described below.

<i>Area</i>	<i>Accounting basis</i>	
General account	Modified cash	Strong control
Special accounts	Modified cash	
Public enterprise [non-financial] special accounts	Accrual	Autonomous for efficient operation
Funds	Accrual	
Government investment bodies	Accrual	

With regard to the general account and special accounts, there are exceptions regarding the identification of fiscal years, however, these are extremely rare cases -

- on the revenue side, for example, term receipts are grouped into a fiscal year depending on the deadlines.
- on for the expenditure side, the fiscal year of all kinds of refunds, compensation payments, and repayments is determined according to the date of decision.
- for the sake of efficient operation, in the case of Public Enterprises [non-financial] and government investment enterprises, the enterprises accounting standard [accrual based] is the main reference.

5.2 The government has a plan for introducing the concept of accrual-basis by degrees to the general account and special accounts.

5.3 In regard to the general account and special accounts, such data is put out in principle by the cash-basis with rare exceptions.

With regard to the Public enterprises [non-financial] special accounts, funds and government investment enterprises, as these entities' operations have market oriented features and higher autonomy, accounting procedures are implemented according to the enterprises accounting standards, which are fundamentally based on accruals.

5.4 The general account and special accounts, whose main revenues are from tax, should be provided more frequently as financial reporting (cash-basis) than that of autonomous non-financial public enterprise special accounts and funds (accrual based).

The general account and special accounts (prepared on a cash basis) and [non-financial] public enterprise special accounts, funds and government investment enterprises prepared on a an accruals basis) are subject to audit by the independent Board of Audit.

5.5 The price of heritage assets should be revalued every five years and accounted on the cash-basis, while accounting settlement is provided annually for the approval of the legislature.

5.6 In regard to general accounting and special accountings, government accounting principles, standards, and definitions are prescribed in Budgeting and Accounting Law, Budget and Accounting Law Presidential Decree and related guidelines, have been established solely by the government.

Accounting of Public enterprise [non-financial] special accounts, funds and government investment accounts should follow the rules of the private sector, while admitting some exceptions coming from public accountability reflected in each related provision.

5.7 Entire procedures regarding the legislature's reviews and approval are implemented through each area's own accounting basis.

The accounting basis used in the budgetary plan and the financial statement are identical, so Korea does not have any kind of reconciliation process.

6. Capital Budgeting

6.1 Capital expenditures and operating expenditures are consolidated into a single budget.

6.2 Korea has never had a capital budget during the past 30 years, and there is no plan to introduce one in the foreseeable future.

6.7 Capital expenditures do not constitute a separate category. There is no clear distinction between capital and operating expenditures, and they are often mixed within the major divisions of the budget. This is true regardless of the type of capital expenditure.

6.8 The main budget document does not contain a separate chapter or set of table summarising capital expenditure.

6.9 Long-term plans covering a five year period are prepared annually. They contain detailed plans for infrastructure development and other major programmes for reference in the annual budget process.

6.10 Special earmarked taxes:

- transportation tax - introduced to finance infrastructure projects;
- education tax - introduced to improve the environment of education;
- rural development tax - introduced to improve agriculture and fisheries structure.

6.11 Non-financial public enterprise special accounts include provisions for depreciation. depreciation is determined according to the standard accounting rule.

6.12 In principle, year-by-year funding is the basic method to finance multi-year projects. Cash-based one-year budgeting has limited the applicability of multi-year budgeting. Multi-year expenses are budgeted only for transportation facilities in order to provide effective financing for multi-year projects. Multi-year expenses need the approval of the legislature.

NORWAY

1. Fiscal Performance

1.1 Table 1 shows the fiscal performance for 1997 from the first approved budget (Des 1996) to account. Table 1 also incl. the estimated account based on the last approved budget in Des. 1997.

The table also incl. account measured as percentage of GDP. Income excl. petroleum revenues, expenditure excl. petroleum expenditure and non-oil surplus are measured as percentage of mainland-GDP.

Table 1. Key figures for the Fiscal Budget (incl. Social Security) and Government Petroleum Fund 1997. In millions of NOK

	Approved Budget (S III)	Estimated account December 1997	Account 1997	Percentage of GDP
<i>1. Fiscal Budget</i>				
A Total revenues	429 979	435 173	440 189	40,57
A.1 Revenues from petroleum activities	69 100	68 950	69 824	
A.2 Revenues excl. petroleum activities	360 879	366 223	370 365	41,36
B Total expenditure	375 393	372 990	373 449	34,42
B.1 Expenditure on petroleum activities	- 8 591	- 16 021	-16 984	
B.2 Expenditure excl. petroleum activities	383 984	389 011	390 433	43,60
<i>Non oil budget surplus (A.2-B.2)</i>	<i>-23 106</i>	<i>-22 789</i>	<i>-20 068</i>	<i>-2,24</i>
+ Transfer from the Government Petroleum Fund	23 106	22 789	22 789	
<i>= Fiscal budget surplus</i>	<i>0</i>	<i>0</i>	<i>2 721</i>	<i>0,25</i>
<i>2. Government Petroleum Fund</i>				
Revenues from petroleum activities (A.1-B.1) are transferred to the Government Petroleum Fund	77 691	84 971	86 808	
-Transferred to the Fiscal budget	23 106	22 789	22 789	
+Dividend on the Government Petroleum Fund	2 700	3 300	3 343	
<i>= Surplus Government Petroleum Fund</i>	<i>57 355</i>	<i>65482</i>	<i>67 362</i>	<i>6,21</i>
<i>3. Fiscal budget and Government Petroleum Fund</i>				
<i>Total surplus</i>	<i>57 355</i>	<i>65 482</i>	<i>70 083</i>	<i>6,46</i>

Revised national budget 1998 with new estimates for the 1998 Fiscal budget will be published 15.5. before the PUMA-meeting.

1.2 *Regarding overall fiscal policy, the Government is placing particular emphasis on the following elements:*

- Fiscal policy must contribute to the stabilisation of the economy and strengthen employment on a sustainable basis. During a cyclical downturn, fiscal policy must be geared towards stimulating economic growth, and curbing growth in upturns.
- Fiscal policy must also be focused on long-term objectives. A projected sharp rise in public expenditure on pensions and the care of the elderly will coincide with a projected decline in government petroleum revenues after the turn of the century. The increase in petroleum revenues over the next few years should therefore be used to build up reserves by accumulating financial wealth in the Government Petroleum Fund.
- Fiscal policy must be focused on enhancing the Norwegian economy's ability to withstand fluctuations in oil prices without having to resort to major cutbacks if oil prices should fall. The Petroleum Fund is intended to serve as a buffer against variations in the central government's petroleum revenues.

At the end of the 1980s and the beginning of the 1990s, when the growth in the private sector was low, fiscal policy was used actively to boost total demand in the economy. From 1994 fiscal policy was focused on curbing domestic demand. The development since 1989 is indicated in the table below.

Table 1 Fiscal Budget indicators. Percentage change from previous years

	1989	1991	1993	1995	1997 ²⁾	1998 ²⁾
Real underlying fiscal expenditures	5,0	4,3	1,2	-1,1	2,1	2,1
Non-oil cyclically-adjusted surplus net of interest payments ¹⁾	-2	-1½	-½	2¼	½	¼

1) Per cent of mainland GDP.

2) Estimates.

In the Revised National Budget for 1997 the Government at the time presented budget projections throughout 2001. The medium-term projections for Fiscal Budget revenues and expenditure were at first kept mainly unaltered by the new centre-oriented Government in position from October 1997, but have since then been updated for the years throughout 2002. The medium-term budget projections are based on the following main technical assumptions:

- An oil price of NOK 120 (1998-prices) per barrel in the years 2000-2002.
- The level of taxes and excise duties remains approximately unchanged after 1999.
- Underlying annual real growth of one per cent per year in Fiscal Budget expenditure.

Based on these assumptions, the nominal non-oil budget deficit is expected to remain between NOK 10bn and 13bn in the period 2000-2002.

As a result of sharp growth in the net cash flow from petroleum activities, allocations to the Government Petroleum Fund are projected to rise substantially over the next years, and the capital in the Petroleum Fund at the end of 2002 is estimated at NOK 663bn, or nearly 50 pct. of GDP.

2. Role of the Legislature

2.1 Theoretically, there are no restrictions on the type and scope of measures that may be introduced in parliament by the parliamentary parties, with or without tacit consent by the cabinet, including total expenditure, total revenue and budget balance.

Realistically, and in the short run, there is little that can be done about commitments towards beneficiaries of transfers from the National Insurance Scheme and towards state employees. In addition there are several statutory rights regarding health care, education and law and order which represent limitations on the possibility to change the budget from one year to another.

2.2 The legislature typically enacts the budget proposed by the government after some changes, depending on the political situation at the time. The last 10 years, minority governments have made compromises with the opposition parties. Therefore the final budget decisions always differ from the original budget proposal. The total amount of changes in the budget balance has varied from 1 to 5 billions NOK during the last three years. But within these aggregated amounts, there have been a great number of minor changes in the different policy-areas.

The legislature's role in the budget process varies with the political situation, for instance depending on the opposition's wish to overthrow the Government or the number of government members in the legislature. The Government in position have only 42 of 165 seats in the parliament and this probably gives the legislature a more important role in the budget process.

2.3 The Ministry of Finance is responsible for Appropriation bill No 1, called "Yellow Book", which contains the entire state fiscal budget. In addition the individual ministries forward annexes which contains a more detailed presentation of the expenditures in each area. These annexes are used as background documents when the budget is discussed in the parliamentary committees. But they do not contain any other proposals than those which already are listed in the budget bill forwarded by the Ministry of Finance ("Yellow Book").

2.4 The legislature's first step after receiving the budget appropriation bill No 1 is the parliamentary Finance Committee's proposal of net expenditure ceilings for 23 specified areas (like health care, school, culture etc.), and 2 ceilings for the revenues in the budget. These proposals are discussed in a plenary session and final votes for the 25 ceilings are made. In the next step the different parliamentary committees make recommendations on how to distribute the expenditures in detail within each ceiling. This process concludes with plenary decisions until the whole budget has been enacted in the beginning of December.

As a part of the legislature's budget process, the different ministries receive and answer by letter, questions from the parliamentary committees and from the different party groups. The questions often concentrate on details in the budget or other relevant information as background material for the committee members.

Heads of government ministries and agencies do not typically testify at committee meetings, but the cabinet ministers can in particular cases participate in committee meetings to answer questions or brief the committee.

The ordinary committee meetings are closed for the public, but organisations, experts or others with relevant information can be invited to meet with the committee.

2.5 *The legislature has recently established a budget secretariat consisting of economists and technical staff. To serve the budget secretariat a computer program for the budget process has been developed. This secretariat is supposed to serve the parliamentary Finance committee and to deliver services and necessary material for the different party groups in the legislature. In addition, the biggest party groups have economic advisors or budget secretaries of their own.*

2.6 *A new budget procedure was implemented in the parliament when the 1998-budget was enacted during the autumn 1997. The new procedure includes aggregate expenditure ceilings before beginning debate on individual expenditure items, as described in 2.4.*

2.7 *The sectoral ministries make up appurtenant annexes which are presented together with the budget proposal in appropriation bill No 1 ("Yellow book"). In these annexes there is detailed information about the objectives for the different programmes and usually accounting figures for the past year(s). This information is used as basis for the decisions proposed by the parliamentary committees in each programme area.*

2.8 *The whole budget is voted annually. The budget procedures is based on the principle of annual spending authority and decisions. Even if entitlement programs contain statutory rights for different groups of citizens, the appropriations on the budget must be decided each year.*

2.9 *Generally there are two regular supplementary budget bills presented by the Ministry of Finance each year, the first presented before 15 May and the second presented in November/December. In connection with these two bills there may be presented several bills from the other ministries. These supplementary budget bills are supposed to contain only minor adjustments in the budget. Still significant changes in the budget have been voted during the last years.*

The main rule is that proposals which represent changed expenditures or revenues during the budget year, must be presented in connection with one of the two supplementary bills. In that way the Ministry of Finance, the government and the parliament have the possibility to evaluate the total amount of changes in the budget and in some cases to consider countervailing measures.

3. Fiscal Relations with Lower Levels of Government

3.1 *There are no formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy.*

3.2 *The Ministry of Local Government monitors the legality of budget resolutions passed by the municipal council. In the process, the Ministry considers whether the budget is realistic, provides for an adequate operating surplus and ensures permanent availability of adequate funds to cover current expenditure. Budget resolutions passed by the county council are to be sent to the Ministry for informational purposes only.*

3.3 According to the Local Government Act municipalities and county municipalities may only raise loans for capital purposes. Decisions involving the raising of loans are not valid unless approved by national government. According to the Local Government Act, the total liabilities of a municipality or of a county municipality must not be greater than is reasonable on the basis of its financial situation. In addition, legal restrictions exist for repayment period, method of repayment and foreign loans.

3.4 The Local Government Act gives the Ministry authority to take charge in a situation where a municipality or county municipality is unable to pay its debts. In addition, the national government may assign discretionary grants to municipalities or counties which experience financial difficulties.

4. Managerial Flexibility

4.1 There are approximately 3000 appropriation lines in the 1998-budget. Every line is composed of chapter and item. The chapters define the receivers of the expenditure, while the items define the different expenditure- and revenue-sections. For instance, the item numbers 1-29 represent the section for state operating expenses, 30-49 represent section for new buildings, installation etc., 50-89 represent the section for transfers to others and 90-99 represent the section loans, national debts etc. The outlays for salaries, buying goods and services have been merged into one item for each chapter.

4.2 As a rule, it is not permitted to exceed the amount under each expenditure item which have been appropriated, or to transfer it to another budget period or to another budget item in the same period. It is permitted, however, to transfer up to 5 per cent of an appropriation for current expenses to the following budget period. Exceptions over and above this, require special approval in the budget resolution. Such approval is shown by means of keywords added to the respective chapter or budget item. The keywords are:

- A) "Estimated appropriation". This keyword can be added to appropriations for expenses which are based on provisional calculations, and which it is possible to exceed if necessary.
- B) "Can be carried forward". This keyword can be added to appropriations for building and construction and materiel which are to be available also in the next two budget periods. Transfers beyond that time are not permitted.
- C) "Can be used under". The keyword (plus the respective chapter and item numbers) can be added to appropriations for expenditure when savings, if any, can be spent under other expenditure chapters in the budget for the same period.

4.3 The budget procedures does not set any limitations in these matters, as long as the managers keep the expenditures within the budget and as long as the appropriations are used for the right purposes. But there are other laws and regulations which represent restrictions and rigidity for managers who consider to contract out services currently performed in-house. The legislation about civil servants and the pay settlement for state employees will in many cases make it difficult or unprofitable to go through with such changes.

4.4 See 4.2

4.5 There are no such possibilities, except for special emergency powers which gives the King and County governors the right to order payments and unexpected expenses not covered by appropriations.

4.6 *Except for establishing new jobs at high level (deputy secretaries), which may involve structural changes in the government organisations, there are no centralised quantitative restrictions. The different managers are free to hire the staff they need, provided they have the sufficient amount of money in their budgets. There is considerable rigidity when it comes to firing staff, changing wages and other terms of employment. These are regulated by the legislation covering civil servants and in the pay settlement for state employees.*

5. Accrual Accounting and Budgeting

5.1 *The state budget follows the principles of cash basis accounting. Accrual basis accounting is permitted only in exceptional cases.*

5.2 *The answer is no to both questions.*

6. Capital Budgeting

6.1 *Capital expenditures and operating expenditures are consolidated in a single budget.*

6.2 *Capital expenditures and operating expenditures have been consolidated in a single budget for more than 30 years. There are no plans to introduce a single capital budget in the near future.*

6.7 *Capital expenditures are a separate category within the budget (the division for new buildings and constructions etc.). The fundamental key concepts in classifying the budget are chapters and items. Each chapter consists of expenses or revenues for a direct purpose and the chapter classifications should correspond to the administrative classifications of the administration, in such a way that each chapter is at the disposal of one institution or a similar group of institutions.*

6.8 *The main budget document (The annual bill, see 2.3) contains no separate chapter or set of tables summarising capital expenditures.*

6.9 *Long term plans (10 years) for the road, rail, air transport and port/coastal administration sectors are presented for the parliament every 4th year. These sector plans also include recommended long-term budgets on each sector.*

6.10 *Capital expenditures are not differently financed from expenditures in general. There is no use of earmarked taxes. Some national roads are fully or partly financed by road tolls.*

6.11 *The operating budget does not include any charge for the use of capital (e.g. depreciation, payment on interest).*

6.12 *The legislature provides partial funding incrementally year by year for the full cost of a multi-year capital project. The procedure of building and construction works makes it often necessary to be able to terminate contracts that entail State obligations in future terms. Resolutions about start appropriations gives authority to managers to incur obligations beyond the appropriation "within the limits of the given cost estimation". Furthermore the main rule is that an appropriation cannot be transferred from one term to another. The keyword "can be transferred" (see 4.2 B) can be added "with building and construction, and material appropriations and with other appropriations where the Starting is using the key word required in order to obtain the best result of the particular appropriation. Unused appropriations can be transferred to the two following budget years. Furthermore, transfers cannot take place."*

NEW ZEALAND

1. Fiscal Performance

1.1

1997 Operating Balance	1,908 million	2.0% of GDP
Net Debt	25,324 million	26.9% of GDP
1998 Operating Balance	1,538 million	1.6% of GDP
Net Debt	24,742 million	25.0% of GDP

(1997 figures are actual, and 1998 figures are those forecast in the 1997 December Economic and Fiscal Update.)

1.2

1998/99 Operating Balance	1,833 million	1.7% of GDP
Net Debt	24,258 million	23.0% of GDP
1999/2000 Operating Balance	2,191 million	2.0% of GDP
Net Debt	23,358 million	21.1% of GDP

(per 1997 December Economic and Fiscal Update)

2. Role of the Legislature

2.1 Since February 1996, the New Zealand House of Representatives has operated under new Standing Orders. These allow Members of the House to propose changes that would affect Votes, and the Government to exercise a “financial veto” over such proposed changes. Where the Government considers that a spending proposal will affect the Crown’s overall financial position, it may veto that proposal. The veto cannot be voted on or overturned by the House.

The House will not pass a bill, amendment or motion which the Government certifies it does not concur in because, in its view, the bill, amendment or motion would have more than a minor impact on the Government’s fiscal aggregates if it became law.

In addition, the House will not make a change to a Vote which the Government certifies it does not concur in because, in its view, the change would, if made, have more than a minor impact on the composition of the Vote.

2.2

- Yes
- Very few, if any at all.
- None. Refer 2.1

- The Fiscal Responsibility Act, introduced in 1992 has increased the information put before Parliament. In particular the Budget Policy Statement debate is a new reporting requirement in which the government must specify their broad strategic priorities for the upcoming Budget; their fiscal intentions for the next three years; and their long-term fiscal policy objectives.

2.3 One bill covers all Ministries and categories of expenditures.

2.4

- Budget Policy Statement:

The Finance and Expenditure Committee must report on the budget policy statement within six weeks of the publication of that statement. A debate is then held on the budget policy statement and on the report of the Finance and Expenditure Committee.

- Delivery of the Budget and Budget Debate:

The main Appropriation Bill may be introduced to the House only after the first reading of bills. After its first reading the House proceeds to the second reading forthwith. The Budget statement is delivered in moving the second reading of the main Appropriation Bill. The debate on the Budget is taken ahead of all other Government orders of the day.

- Fiscal Strategy Report and Economic and Fiscal Update:

The Finance and Expenditure Committee prepares a report within two months of the delivery of the Budget, a report on the fiscal strategy report and the economic and fiscal update laid before the House on the day when the Budget was delivered.

- Examination of Estimates and Estimates Debate:

The Finance and Expenditure Committee may examine a Vote itself or refer it to any subject select committee for examination. Committees must report to the House on their examinations of the Estimates within two months of the delivery of the Budget.

The Estimates debate is a consideration of the appropriations being sought by the Government in each Vote in the main Appropriation Bill. At the conclusion of the Estimates debate the remaining Votes and provisions of the bill and any amendments proposed by the Minister of Finance that are notified on the Supplementary order Paper are put as one question.

- Budget Policy Statement:

The Finance and Expenditure Committee must report on the budget policy statement within six weeks of the publication of that statement. A debate is then held on the budget policy statement and on the report of the Finance and Expenditure Committee.

Debate on the question for the third reading of the main Appropriation Bill must be completed within three months of the delivery of the Budget.

- Supplementary Estimates:

Following the introduction of an Appropriation Bill, the Supplementary Estimates stand referred to the Finance and Expenditure Committee. The committee may examine a Vote itself or refer it to any subject select committee for examination.

- Passing of the Bill:

After the second reading of an Appropriation Bill, the House proceeds to the third reading forthwith, unless the Minister in charge requires the House to resolve itself into committee to consider amendment.

There is no amendment or debate on the question for the third reading.

- Financial Review:

Refer to 2.5.

- The Finance and Expenditure Committee (FEC) scrutinises the forecast and year-end financial statements of the Government as a whole, monitoring performance on behalf of the House. The FEC and other select committees do the same for: departments; State-owned Enterprises; Crown Entities; Offices of Parliament; and organisations deemed by the House to be public organisations.
- Chief Executives of Government Departments and Treasury officials are available for comment at committee meetings should Ministers request it.
- The proceedings of a select committee or subcommittee other than during the hearing of evidence are not open to the public and remain strictly confidential to the committee until it reports to the House.

2.5

- The Audit Office is an Office of Parliament and carries out its functions under the authority of, and for the benefit of, Parliament. The Auditor-General reports to the House and to select committees on whether departments have conducted their business in accordance with the intention and authority of Parliament. The role of the Audit Office is essentially to provide Parliament with an assurance that all expenditure of public money has been properly authorised and accounted for, and that the information presented to Parliament is fair and correct.
- Select committees of the House of Representatives carry out the following reviews:

Estimates examinations: the Estimates are presented at the time of the Budget. The Finance and Expenditure Committee (FEC) may then itself elect to examine any Vote, or refer it to another select committee for examination.

Examination of the Supplementary Estimates: Following the introduction of an Appropriation Bill, the Supplementary Estimates stand referred to FEC. The FEC itself generally elects to examine votes contained in the Supplementary Estimates, but it may refer them to another select committee for examination.

Financial reviews of the performance and current operations of government departments: Select committees review each department's annual report and responses to a financial review questionnaire which may be based on a standard questionnaire produced by the FEC. Each select committee is required to report back to the House on or before the first sitting day in each calendar year.

Financial reviews of the performance and current operations of Crown entities, State-owned enterprises (SOE) and certain other public organisations: Each select committee is required to report back to the House on a financial and operational review of the Crown entities and/or SOEs allocated to that committee, within six months of the relevant annual report having been presented to the House.

2.6 No

2.7

- The main (Budget) Estimates are presented to the Legislature. Part C of the Estimates provides detailed specifications (by output class) of the departmental and non-departmental outputs to be purchased by the Vote Minister. These reflect the Vote Minister's requirements for delivery of the outputs. They include a description of the output class followed by specification of the quality, quantity, timeliness and cost performance indicators. Where appropriate, comparative information for the performance indicators is provided.

How is this *information* used by the legislature?

- select committees examine Ministers and departments regarding the appropriations requested
- the information is presented in the audited financial statements
- the Budget documents are used in parliamentary debate

2.8 Most appropriations are limited to one year, consistent with the annual Budget cycle. Multi-year appropriations are provided for in the Public Finance Act. At present only one Vote has a multi-year appropriation. Permanent legislative authority is used in four circumstances: where a measure of constitutional independence from Government control is desirable, for example, Judge' salaries; to commit to the continuity of supply for "essential" services or transactions such as debt servicing; to provide a commitment to the settlement of liabilities, such as repayment of debt and payment of tax refunds; and for provision of Mode B (Net) output classes on the open market (to parties other than Ministers) in competition with other potential suppliers.

2.9

- Yes
- Ministers may request changes to baselines, and Cabinet considers proposals during the review of the baselines prior to the Budget. At the same time as the preparation and review of the budget baselines for the coming years, Ministers and Chief Executives agree any Supplementary Estimates proposals for the current year, including any planned changes to outputs. Supplementary Estimates proposals bring together Cabinet decisions and forecasting changes for the current year which have been made since the last Budget.
- One bill each year

3. Fiscal Relations with Lower Levels of Government

3.1 Local authorities exist under statutory authority from central government through the Local Government Act 1974, although they operate largely independently of central government (for example, local authorities have their own source of income via local taxes on landed property or rates).

There are currently no formal processes in place for consultation between central government and local authorities in respect of a national fiscal strategy, and central government has no regular, formal role in reviewing or approving the budgets of local authorities.

3.2 The Local Government Amendment Act (No. 3) 1996 prescribes a new rigorous financial management regime for all local authorities from 1 July 1998. This regime is intended to promote prudent, effective and efficient financial management by local authorities, and is similar to the prudent fiscal and debt management practices that were applied to central government via the Fiscal Responsibility Act.

3.3 A key aspect of this regime is the borrowing provisions. These provisions replace the prescriptive Local Authority Loans Act 1956 and regulation by the Local Authorities Loans Board (a central government agency) with a general power for local authorities to borrow, or enter incidental arrangements in any market instrument. There are no statutory limits on the borrowing or indebtedness of local authorities (except for a prohibition on borrowing in foreign currency).

3.4 There is no formal requirement for central government to assist those local authorities which experience financial difficulty, and the Local Government Amendment Act (No 3) 1996 explicitly states that local authority loans are not guaranteed by central government. However, under certain circumstances, central government has provided financial assistance to local authorities. A recent example occurred in 1996 when the Government agreed to provide financial assistance to the West Coast Regional Council under certain conditions (including that the Council increase its rates to match central government funding and that the Council explore long-term solutions to its funding difficulties).

4. Managerial Flexibility

4.1

- Approximately 225 appropriation lines.
- Line item by Vote
- No, appropriations are completed on an output basis.

4.2

- Appropriations are based on output classes. Within an output class, departments can shift appropriations. The movement in spending must be agreed between the department and the Vote Minister and the purchase agreement updated to reflect the movement.
- Yes appropriations can be moved from one output class (programme) to another. This is referred to as fiscally neutral adjustments, of which there are two types: proposals to reprioritise resources within a limited number of appropriation types; and proposals to reprioritise resources from one type of appropriation category to another type of appropriation category.
- Fiscally neutral adjustments are expected to be made through baseline updates. Joint Ministerial approval is required at other times only in exceptional circumstances.

- No

4.3 Yes managers can contract out services, however there are limitations in terms of audit requirements. The Audit Office checks government departments' financial reports and assures Parliament that these reports are complete and accurate, and that public money has been spent for the purposes that Parliament authorised. The Audit Office may itself choose to use contractors for the purposes of auditing a government department. In such cases the Audit Office notifies the department involved.

4.4 Not automatically. Departments can apply for expense/capital transfers which are approved on the basis of an explicit decision by Vote Ministers to defer output purchases or capital projects from one year to the next. If an expense/capital transfer is not sought, the department will have a surplus in the operating statement. This funding will return to the Crown. In terms of the amount of funding carried over, the department may request up to the full amount.

4.5 No

4.6

- No. The number of staff a government organisation employs is limited by the level of funding.
- The Chief Executive is responsible for staff. Chief Executives must take into consideration the State Sector Act, Equal Employment Opportunities and the Employment Contracts Act (applies to all New Zealanders).
- Managers have total flexibility in setting wages and terms of employment with staff, however they will be limited by the departments funding.
- Higher Salaries Commission is responsible for some salary levels - eg Judges
- State Services Commission is responsible for Chief Executives and Senior Executive Service

5 Accrual Accounting and Budgeting

5.1

- Accrual (full)
- No
- No

5.2 Moved to accrual basis in 1992. (Accrual accounting was introduced in 1989. The first set of year end financial statements reporting on the Crown as a whole were prepared in June 1992.)

5.3 Consolidated statements prepared on accrual basis

5.4

- Monthly
- No
- The annual accounts.

5.5 Physical assets for which an objective estimate of market value is difficult to obtain are recorded as assets at the best estimate of net current value.

5.6 GAAP - in NZ there is no difference between private and public accounting standards

5.7

- Accrual basis
- Accrual terms
- No

6 Capital Budgeting

6.1 Yes, appropriations are divided into separate capital and operating budgets.

6.2

- New Zealand has a capital budget. Thirty years ago capital was a standard expenditure group within the departmental Budgets and was budgeted on a cash basis with the switch to accrual accounting commencing in 1989, only additional capital funding is appropriated and shown in the Estimates of Expenditure.
- No plans to abandon the capital budget.

6.3

- The definition of capital follows the Generally Accepted Accounting Practice (GAAP). GAAP is a set of accounting rules approved by the New Zealand Accounting Standards Review Board - a body established by the Financial Reporting Act 1994. Appropriations are for additional capital invested in the department or other Crown entity.
- Yes
- If you are referring to individual departments then the answer is yes. The departments have capital invested in them by the Crown.
- No

- The definition of capital is determined by the Generally Accepted Accounting Practice (GAAP), a set of accounting rules approved by the New Zealand Accounting Standards Review Board.

6.4 Yes, it includes charges for depreciation and return on capital employed (a capital charge).

6.5 A department's capital budget is financed principally from their existing balance sheet. No appropriation is made for that capital spending.

6.6

- Multi-year appropriation capital can be funded off the balance sheet, therefore no appropriation is required. However, additional capital requirements are appropriated on an annual basis.
- The technique of funding off the balance sheet is in accordance with Generally Accepted Accounting Practice (GAAP). The executive's approval of a multi-year capital project is based on funding being available over the period required. Where additional funding is needed, legislative approval is sought on an annual basis.

PORTUGAL

1. Fiscal performance

1.1.

The 1997 Outcome

For the 4th consecutive year the general government overall balance target was undershoot. General government deficit was reduced by about 85 billion escudos or 0,4 percentage points of GDP lower than originally planned and 0,7 percentage points of GDP lower than 1996 outcome.

General Government - 1997

	Initial estimate		Current estimate	
	Value (**)	Percentage of GDP	Value (**)	Percentage of GDP
General Government Overall balance (*)	-520,0	-2,9	-435,1	-2,5
Public debt (*)	11309,1	64	11007,3	62

(*) Eurostat definition

(**) Billions of escudos

The better than expected fiscal performance resulted mainly from a lower capital deficit and higher current savings than originally budgeted. Higher current saving has resulted mainly from savings in interest payments and receipts of social security contributions above the expected as well as other current receipts.

The substantial reduction in interest payments is explained by the reduction of interest rates of public debt as well as by the reduction of public debt that resulted from an impressive anticipated amortisation enabled by privatisation revenues and the reduction of deficit.

The 1998 Budget

The General Government overall deficit for 1998 is estimated at 2,5 per cent of GDP in accordance to the target of the Convergence and Stability Program but allowing for the increase in the capital deficit in order to respond to the requirements of modernisation of public infrastructures.

As the economic envelope is one of accelerated growth as well as decreasing real interest rates the pressure upon the primary balance eases from a long term perspective of fiscal sustainability allowing rather to increase the capital deficit than to improve primary balance.

General Government

	1997 current estimate		1998 estimate	
	Value (**)	Percentage of GDP	Value (**)	Percentage of GDP
General Government Overall balance (*)	-435,1	-2,5	-477,2	-2,5
Public debt (*)	11007,3	62	11464,6	60,7

(*) Eurostat definition

(**) Billions of escudos

The tying of the 1998 budget to the medium term fiscal program assures the credibility of fiscal policy easing the inconveniences of the fiscal consolidation and enabling simultaneously the continuity of primary current expenditures redirection towards social functions.

1.2.

The government's medium-term fiscal policy objective is to get a sustainable path for the fiscal consolidation which could assure simultaneously the commitment to the Maastricht criteria and the capacity to accommodate eventual cyclical slowdowns of the economy. The path of fiscal consolidation depends mainly of the strategy for the primary current expenditure and of the interest payments since in this period it is anticipated a decrease in current receipts as percentage of GDP and the capital deficit reduction is undesirable.

So, in order to get for the overall balance an annual reduction of 0,5 percentage points of GDP the primary current expenditure will be reduced by 0,5 percentage points till the year 2000 whilst the interest payments are expected to be reduced about 1 percentage point of GDP. This strategy will require the gradual reduction of the structural component of the deficit since the economy is expected to grow near the trend. Furthermore, a structural reorientation of current expenditure is also designed towards the social functions namely education and health.

2. Role of the legislature

2.1. No restrictions.

2.2.

- Budget typically not enacted as proposed by the government.
- The government proposes no amendments.
- Variable number of amendments proposed by the parliamentary groups. Last three years number impact of the amendments approved on the central government deficit is as follows:
 - budget for 1998 - 0,17 per cent ⁽⁵⁾;
 - budget for 1997 - 1,60 per cent ⁽⁶⁾;
 - budget for 1996 - 1,29 per cent ⁽⁷⁾.

- Amendments are connected with government expenditure concerning public investment of the central government and tax expenditures.
- Actual legislature's more active role comparing to 10 years ago is due, among other possible causes, to the extension of the parliament budgetary competence (namely the fact that it approves the budget of all services with financial autonomy) and to the circumstance of the minority parliamentary representation of the present government.

2.3. The parliament approves the budget of:

- the government central services (without financial autonomy) and the services with financial autonomy, enacting, not only the receipts, but the expenditure according to three classifications: organic, functions (areas of governmental intervention) and economic aggregates; and
- the Social Security, being enacted a global map of the receipts of this sector by nature and the expenditure by areas of action.

2.4.

- Discussion and voting of the budget in general lines in plenary assembly. Discussion and voting in detail in the Committee for the Economy, Finances and Planning, excluding matters related to taxes, loans and other means of financing, as well as those evoked by the committee to plenary assembly. The committee approves the report and the final text for presentation to the plenary parliament.
- If demanded by the committee, the plenary parliament may convene external entities, providing that these are not submitted to governmental authority.
- The committee meetings are compulsively open to the public.

2.5. There isn't a specialised staff acting independently from the parliamentary groups. In fact, each one takes advantage of its own technicians.

2.6. No.

2.7. No information is presented in the terms of this question.

2.8. The total budget appropriations are annually voted in its whole. Even the annual tranches of pluri-annual credits are voted each year.

2.9.

- Yes.
- The key steps are similar to those of the budget enactment above described.
- In the past three years it has been enacted one supplementary budget bill *per* year.

3. Fiscal Relations with Lower Levels of Government

3.1. Yes, the Law for the Finances of the Autonomous Regions ⁽⁸⁾ creates the Council for Accompanying the Financial Policies, which aim is that of establishing a more correct articulation between the finances of the autonomous regions and those of the central government by making an analysis of the regional budgetary policies and their integration in the communitary policies related to the economic and monetary union.

3.2. No.

3.3. These restrictions exist at two levels:

- in which concerns the autonomous regions, it is annually defined in the budget bill the upper limit of additional debt for each year;
- regarding the local governments, the indebtedness is submitted to rules related to the total amount of the FEF ⁽⁹⁾ they're entitled to, which define the scope of employment of the loans authorised. These rules are being presently reviewed within the bounds of the reformulating of the law for local finances.

3.4.

- Such mechanisms do in fact exist.
- Besides the ordinary calculation rates of the annual transfers from the central government in favour of the local and regional governments ⁽¹⁰⁾ and the partition of the tax receipts among these three levels of government ⁽¹¹⁾, situations of extraordinary financial support from the central government are also legally contemplated.
 - Regarding the regional governments, these exceptional cases englobe natural catastrophes, conjoint financing of projects of common interest and national participation in the communitary systems of financial incentives aiming to support the productive sector.
 - Regarding the local governments, among other situations, it would be interesting to emphasise those related to natural disasters, recuperation of degraded and clandestine zones in some circumstances and the settling of new municipalities.
- As examples, there can be cited the financial supports given to the Azores Islands in 1995, and to Madeira Island and several municipalities of Alentejo in 1997, all due to particularly devastator storms that have occurred in those localities.

4. Managerial flexibility

4.1. Complementing what has been described under the item 2.3., the voting comprises three different classifications of public expenditure (structure of government, areas of governmental intervention and economic aggregates ⁽¹²⁾), by areas of action and pluri-annual investment projects.

Organic classification - the expenditure is voted at the level of all chapters of all ministries, and each chapter corresponds to:

- a service or a group of services of the central government ⁽¹³⁾;
- that very year's amount of the pluri-annual investment projects of each ministry; or
- some exceptional expenses of the responsibility of the Ministry for Finance.

At their turn, the services with financial autonomy are voted individually, including their revenues and expenses.

Functional classification (three levels) - voting at the second level.

Economic classification (three levels) - voting at the first level in some cases (*e.g.*, expenses related to the personnel and acquisition of ordinary commodities and services), and at the second level in others (*v.g.*, the transfers).

4.2.

- The concept of programme is only applicable to the pluri-annual investment projects and the military planning.
- In these cases, appropriations can be moved only if this doesn't change the functional classification at the second level ⁽¹⁴⁾ or the organic classification at the level of the chapter.
- The authorisation for such reallocations isn't similar for all cases. For instance, if the changes considered regard the investment programmes, they must be always authorised by the Minister for Planning and in some cases, the authorisation of the Minister for Finance is also required.
- The impossibility of covering administrative costs with sums consigned to programmes derives from the very gearing of the budget itself. In fact, this type of reallocations would imply a change between chapters, which is not possible.

4.3. Yes, in exceptional situations.

4.4. Applicable to services with financial autonomy and in some cases expressly contemplated in the juridical frame. Under these circumstances, the full amount is generally carried over.

4.5. Yes, in which concerns programmes included in the map of pluri-annual investment projects. Regarding other situations, the commitments engaged must be echeloned in time and this arrangement by temporal degrees must be submitted to the approval of the Minister for Finance.

4.6.

- These quantitative restrictions do in fact exist and the Ministry for Finance establishes annually the number of additional admissions from the labour market *per* ministry.
- The flexibility in hiring staff is circumscribed to the *plafonds* just now referred, as well as to the general rules for admitting new personnel. Nevertheless, there is a much higher degree of manageableness in hiring civil servants from other agencies, being legally framed the possibility of a transfer from one agency to another.

- The possibility of firing staff is virtually non-existent. Still, a certain percentage of the governmental labour resources are composed of workers with temporal-limited employment contracts. A certain degree of potential labour flexibility lies on the nature itself of this type of contracts.
- The managers' flexibility in setting the wages and other terms of employment to their staff is virtually non-existent, at the exception of some exceptional cases juridically framed for some agencies.
- Specific laws regulate the organisation of the professional careers and determine the wages corresponding to the different careers. It should be pointed out that there are the general career and specific careers, with differentiated levels of wage more favourable to the latter. Among others, the specific careers apply to bodies with inspecting functions, teachers and physicians.

5. Accrual Accounting and Budgeting

5.1.

- The actual system is essentially a cash based system in the sense that the budget is presented to approval in cash basis giving origin to cash basis reports to be presented to the Court of Auditors and to the Parliament.
- Notwithstanding the main autonomous services (particularly the National Health Service) as well as the social security general system (for private sector's workers) sub-sector use already accounting systems adapted from the Official Plan of Accounts (POC) of the private sector.
- The plans of accounts used by some autonomous services and the social security use only a partial accrual basis. For example, the social security doesn't take into account future liabilities for pensions originated by the present entitlements and accrued interest of public debt is not registered.
- Most government operations are carried out in two steps: commitment and payment. The differences between receipts and expenditures due to payment and their cash registers give rise to account assets and liabilities.
- The accounts of each public sector unit in cash basis are consolidated in the transfers between each public sector unit to form a whole set of government accounts.
- When reporting to European Commission or Eurostat this set of consolidated General Government accounts are subsequently converted according to the European System of Accounts (ESA) that is at the present closer to "due for payment basis" concept than of the accrual concept.

5.2.

- There is in fact an increasing share of public departments using plans of accounts near the accrual basis as well as the commitment and payments registering steps. Notwithstanding cash-basis accounting is kept in parallel.
- The government has already approved a plan of accounts on an accrual basis for the general government enabling the consolidation of the individual accounts on that basis. The details of this plan of accounts are now being prepared in order to their implementation in the near future.

6. Capital Budgeting

6.1. The operating and capital budgets of the direct administration (¹⁵), services with financial autonomy and Social Security are presented in a consolidated form. Still, these two budgets can be perfectly identified in terms of the organic classification of the expenditure (through the chapters) and in terms of the annual *tranche* (through the maps of the pluri-annual investments).

6.2. Such change has never occurred within the last 30 years. Still, it's important to stress out the fact that presently the maps of the investment projects (¹⁶) has a pluri-annual scope. This pluri-annuality is, nevertheless, indicative since it may be altered in the course of the following budget voting.

6.7.

- Capital expenditures are a separate category within the budget and constitute a chapter of the organic of each ministry and are individualised in the budgets of services with financial autonomy and of the Social Security.
- This differs by type of capital expenditure. The part of the capital budget includes:
 - Physical capital;
 - Transfers; and
 - Some current expenditure directly related to pluri-annual investment programmes (*e.g.*, studies upon building projects).

It excludes:

- Non-physical capital (*v.g.* research and development, education, training); and
- The part of physical capital directly connected with the running of governmental departments.

6.8. Complementing the previous answer, it should be added that there exist maps expressly for the pluri-annual investment programmes in terms of the organic, economic and functional classification.

6.9. These plans do in fact exist and are materialised through the pluri-annual investment maps. This is the case of roads and hospitals, for instance.

6.10. There are cases of touristic investments financed with receipts of gambling and purchase of medical equipment aiming to eradicate the cancer financed with a certain percentage of the receipts of the tobacco tax and the transfers from EU funds to the budget are also earmarked.

6.11. No.

6.12. See answer to this question under the item 6.2.

SPAIN

1. Fiscal Performance

1.1 Outturn of fiscal policy in 1997 and outlook for 1998

- Government funding requirement

The Spanish Government has been successful in meeting the deficit target for the single European currency. Fiscal 1997 closed with a public borrowing requirement of 2.6 per cent of GDP, below the levels in other European countries and two percentage points less than the 1996 deficit.

For 1998 the initial target (2.4 per cent) is one-tenth of a point under the level proposed in the Convergence Programme. In the light of the favourable 1997 outturn and the current climate of macro-economic stability in Spain, this target is being reviewed and the outturn may be around 2.2 per cent of GDP.

- 1997 budget

The outturn for the government budget was 4.5 per cent above the initial estimates, one of the lowest rises over the last 15 years.

- Government funding deficit for 1997

The cash deficit for 1997 was 2 049 billion pesetas, 44.4 per cent down on 1996.

1.2 Medium-term fiscal policy objectives

The Convergence Programme is currently being reviewed, incorporating a higher-growth scenario with no detriment to the macro-economic stability now attained.

Although the set of macro-economic and budgetary projections and objectives which underpin this review has not yet been finalised, it can be stated that fiscal policy over the coming years will further pursue the consolidation of public finances. The medium-term objective is to come close to budgetary equilibrium in normal conditions for activity.

The lower public deficit target will mean a continuing strict policy of structural adjustment of spending compatible with maintaining social welfare outlays and more funding for productive investment (infrastructure, research, education and active employment policy). At the same time significant reforms of income tax are to be introduced. These reforms, work on which is far advanced, will progressively reduce the overall tax burden and redistribute it to achieve greater fiscal equity and efficiency.

2. Role of Legislature

2.1. Discussion of the central government budget (*Ley de Presupuestos Generales del Estado*) is regulated by the 1978 Constitution and parliamentary rules of procedure. Article 134 of the Constitution sets limits on the legislature's scope to amend the budget as tabled by the government, given that any proposal or amendment put forward in Parliament which would increase appropriations or reduce revenue requires government approval before it can be discussed.

2.2. There is a set period, both in the Congress of Deputies and in the Senate, for presenting overall or clause-by-clause amendments. Looking back, it can be seen that all political groups represented in Parliament make use of this option; a large number of clause-by-clause amendments are submitted and many are taken into consideration, subject to economic and fiscal policy objectives.

Twenty years after the Constitution was adopted, the parliamentary regime is now fully consolidated in all aspects. There have been no substantial changes to the rules governing discussion of the budget over the last ten years, and the legislature continues to have a pre-eminent role in discussing, amending and adopting or rejecting this bill.

2.3 Spain has a single budget. This is set down in Article 134(2) of the Constitution, which provides that the budget is to include all government expenditure and revenue. Appropriations in the single budget are presented in line with a threefold classification, functional (by programmes), economic and by management centres (Article 53 of the revised General Budget Act - *Texto Refundido de la Ley General Presupuestaria*).

2.4 The procedure for discussion of the budget is outlined below.

CONGRESS OF DEPUTIES

- Presentation of the budget bill (*Proyecto de Ley de Presupuestos Generales del Estado*) for the financial year n+1. The government must table the bill in the Congress of Deputies at least three months before the end of year n (Article 134 of the Constitution).
- The bill is referred to the Budget Committee.
- Period for tabling amendments in the committee. Amendments may relate to the budget as a whole or to individual clauses, and must comply with the limits set down in Article 134 of the Constitution.
- The government has fifteen days to respond to amendments, after which period it is deemed to accept them.
- Plenary discussion of the budget as a whole takes place once overall amendments have been presented, and the overall budget volume will then be set. Once the bill is approved the committee prepares a report dealing with the amendments to individual items, and clause-by-clause consideration then commences in the committee.
- Following that review the committee reports its conclusions and there is plenary discussion of the committee's work and the amendments it has rejected. The bill is then voted, or voted down, in plenary session.
- Once it has been passed the bill goes to the Senate, where amendments can again be tabled (by the same procedure as in the Congress of Deputies), together with veto motions.

- The Budget Committee of the Senate draws up a report and examines the bill, beginning with any veto motions.
- When the committee has concluded its review it reports its conclusions to the plenary session.
- As in the Congress of Deputies, the Senate considers the bill clause by clause and examines amendments in the light of the committee's report. After discussion, if the bill is approved it returns to the Congress of Deputies for the latter to consider and vote on any amendments introduced by the Senate.
- The Senate's rules of procedure set out the steps to be taken if a veto motion is passed and the bill is rejected.
- Once the Congress of Deputies approves the Senate's amendments the bill is passed, signed and promulgated by the King and published without delay.

The government is associated with the discussion process, since it has to notify acceptance of certain amendments; in addition, members of the government testify at the committee meetings.

2.5 Given the special status of budget discussions in the rules of procedure of both houses (the budget takes priority over other bills and the periods set for discussion cannot be exceeded), both the Congress of Deputies and the Senate make all the necessary staff available for this item of business.

2.6 When shaping its economic and fiscal policy the government may set expenditure ceilings for use when preparing the budget. Within Parliament, the rules of procedure of the Congress of Deputies stipulate that the debate on the budget as a whole will set the overall volumes of funding, so these have to be taken into account in the subsequent discussion of clause-by-clause amendments and in the Senate's hearings.

2.7 The bill is accompanied by a large quantity of documentation so that the proposed budget can be examined in depth. Some of these documents are required by law, and others are supplied by the government in support of its proposals. Article 54(3) of the revised General Budget Act provides for mandatory reports describing the content of each programme, the main changes compared with the current budget, and an interim estimate of the degree to which the current year's objectives are being met.

2.8 The budget for a given year has to contain all appropriations for existing programmes. No programme appropriations are authorised in separate legislation. Any service or activity that has to be provided or performed under statute will have an appropriation in the budget.

2.9 Spanish law does provide for Parliament to enact bills authorising extraordinary or supplementary appropriations. Bills of this kind are tabled by the government only when some item of expenditure which cannot be deferred until the following year has to be made and funding is not available in the budget or the funds earmarked are insufficient. The number of extraordinary or supplementary appropriations voted each year depends on the unforeseen necessities which arise.

3. Fiscal Relations with Lower Levels of Government

3.1 Spain's Constitution assigns sole powers for general government finances to the State [Article 149(1), subsection 14], and assigns financial autonomy to the autonomous communities for the performance of their rights and responsibilities [Article 156(1)]. There is accordingly a need for co-ordination between the financial business of the autonomous communities and central government

finances. Legislation on the funding of the autonomous communities (*Ley Orgánica de Financiación de Comunidades Autónomas*, 8/1980) established a joint body, the Fiscal and Financial Policy Council, with advisory and decision-making powers, to ensure countrywide co-ordination and solidarity.

3.2 That Act provides that the autonomous communities have powers to prepare, review, amend, vote and audit their respective budgets. The central government accordingly has no role in approving their budgets, which are voted by their own legislative assemblies. At the same time, the Fiscal and Financial Policy Council sets uniform criteria to secure nationwide economic and budgetary objectives.

3.3 With regard to borrowing, the Act places certain limits on the autonomous communities, since central government authorisation is required for borrowing abroad and for the issue of bonds or public debt notes. Long-term credit operations are further subject to limits with regard to purpose and volume.

Borrowing operations by the autonomous communities have to be co-ordinated one with another and with central government borrowing policy, in the Fiscal and Financial Policy Council.

3.4 The Constitution and the Act mentioned above regulate the funding of the autonomous communities, which consists chiefly of revenue from their own taxes, tax revenue remitted by the central government, commercial income, borrowing, fees for public services, and a share of central government revenue as specified by law. Central government assistance is determined by the constitutional requirement to guarantee a given level of services and equilibrium across the country. The budget accordingly allocates to the autonomous communities, as appropriate, the resources needed to provide the specified level of services. The 1997 budget included an appropriation (*Fondo de Nivelación*) of 10,000 million pesetas for that purpose.

The Constitution further provides for an equalisation fund (*Fondo de Compensación Interterritorial*) for investment purposes, with annual appropriations in the central government budget, to correct economic imbalances between parts of the country. The fund was allocated 136 244 million pesetas in 1998.

4. Managerial Flexibility

4.1 The annual budget bill contains programme appropriations, in turn broken down by economic categories, as set out in the revised General Budget Act. A classification of appropriations, by management centre, by programme or functional category, and by economic category, is attached to the bill each year.

As an instrument of economic policy, the budget reflects decisions on public expenditure and revenue. There is accordingly a classification of appropriations voted by Parliament in terms of expenditure policies or homogeneous activity groups covering all the programmes in the budget; this classification is not formally used in the budget bill, however.

The budget classifications, by programme or functional category and by economic category, and the classification by expenditure policy, are outlined below.

CENTRAL GOVERNMENT BUDGET 1998
POLICY BREAKDOWN (CONSOLIDATED)

Chapters I to VIII

(Pesetas million)

POLICIES	INITIAL BUDGET	BUDGET PROPOSALS	CHANGE 98/97	
	1997 (1)	1998 (2)	millions (2) - (1)	% Δ (2) / (1)
GENERAL GOVERNMENT	1,887,555	1,928,061	40,506	2.1
Justice	152,754	130,880	-21,874	-14.3
Defence	817,248	840,624	23,376	2.9
Public Order and Prisons	651,504	672,376	20,872	3.2
External Relations	124,343	137,384	13,041	10.5
Inland Revenue	141,706	146,797	5,091	3.6
SOCIAL EXPENDITURE	16,273,887	17,161,186	887,299	5.5
1. SOCIAL WELFARE AND PROTECTION	14,020,591	14,909,452	888,861	6.3
Pensions	7,937,111	8,356,068	418,957	5.3
Welfare benefits	971,722	1,034,760	63,038	6.5
Employment initiatives	369,733	471,793	102,060	27.6
Health	3,657,452	3,905,327	247,875	6.8
Education	971,626	1,027,764	56,138	5.8
Housing	112,947	113,740	793	0.7
2. UNEMPLOYMENT AND TEMPORARY DISABILITY	2,017,106	2,014,621	-2,485	-0.1
Unemployment	1,536,305	1,495,447	-40,858	-2.7
Temporary disability	480,801	519,174	38,373	8.0
3. GENERAL SOCIAL SECURITY SERVICES	236,190	237,113	923	0.4
PRODUCTIVE ACTIVITY AND INVESTMENT	2,766,246	3,091,304	325,058	11.8
1. ECONOMIC SECTORS	1,606,155	1,752,544	146,389	9.1
Agriculture	1,067,815	1,085,970	18,155	1.7
Industry and Energy	128,591	224,233	95,642	74.4
Transport: Operating Grants	212,391	228,535	16,144	7.6
Commerce, Tourism and SMEs	147,460	169,876	22,416	15.2
Communications (*)	49,898	43,930	-5,968	-12.0
2. INVESTMENT	1,160,091	1,338,760	178,669	15.4
Infrastructure	924,613	1,025,073	100,460	10.9
Research	235,478	313,687	78,209	33.2
FUNDING OF OTHER LEVELS OF GOVERNMENT	4,880,272	5,139,509	259,237	5.3
Autonomous communities (**)	3,942,793	4,187,294	244,501	6.2
European Union	937,479	952,215	14,736	1.6
PUBLIC BORROWING	3,459,321	3,189,757	-269,564	-7.8
OTHER ITEMS	614,751	674,281	59,530	9.7
TOTAL CHAPTERS I TO VII	29,882,032	31,184,098	1,302,066	4.4

(*) The 1997 appropriation has been adjusted by reducing the appropriation for posts and telegraphs (161 293) and increasing the central government transfer to this agency (30. which was shown as an internal transfer in 1997.

(**) This item has been adjusted by including the reassignment of income tax revenues (44 437 million pesetas in 1997, 679 027 million in 1998).

CLASSIFICATION OF GOVERNMENT EXPENDITURE, 1998

(Pesetas millions)

FUNCTIONAL CLASSIFICATION

1.	General Services	454,707
2.	Defence, Civil Protection and Public Order	1,433,483
3.	Social Security, Welfare and Protection	12,130,607
4.	Production of Non-Traded Public Goods	5,212,148
5.	Production of Traded Public Goods	1,572,509
6.	General Economic Regulation	556,742
7.	Economic Regulation of Productive Sectors	1,514,071
9.	Transfers to Other Levels of Government (Autonomous Communities, European Union)	5,139,509
0.	Public Borrowing	7,522,733

ORGANIC CLASSIFICATION

Central Government	18,863,854
Autonomous Administrations	2,686,945
Autonomous Commercial Agencies	1,184,016
Social Security	12,639,774
Public Bodies	161,920

ECONOMIC CLASSIFICATION

I.	Staff Expenditure	4,323,162
II.	Expenditure on Current Goods and Services	1,081,869
III.	Financial Expenditure	3,210,453
IV.	Operating Transfers	19,992,714
VI.	Capital Investment	1,131,176
VII.	Capital Transfers	841,394
VIII.	Financial Assets	603,331
IX.	Financial Liabilities	4,352,410

4.2 The revised General Budget Act, in Articles 59 to 73, introduces a number of changes that may affect budget appropriations. They include the transfer of appropriations between expenditure programmes with the same or different functions. The Act sets limits and clear conditions for transfers, depending on the nature of the transfers and of the relevant appropriations; they may be made on the authority of the Minister responsible for the department managing the appropriation, the Minister for Economic Affairs and Finance, or else the Council of Ministers (Articles 67 to 70).

In addition, the annual budget bill may stipulate conditions for transfers of appropriations, effective for that particular year.

4.3 Contracting-out currently focuses on services such as property maintenance, security and catering, etc.; services entailing the exercise of administrative authority are not contracted out.

It should further be noted that there is currently a significant restriction on contracting out given services, such as computers and the motor vehicle fleet, for which the Government has a specialist in-house management centre; at the same time, those management centres can contract out certain aspects of their activity.

4.4 The revised General Budget Act provides for appropriations to be carried over to the following year in strictly limited and specified cases:

- extraordinary and supplementary appropriations and transfers effected or authorised in the final month of the financial year which, for proper reasons, have not been spent in that year;
- appropriations covering commitments for operating expenditure entered into before the final month of the financial year which, for proper reasons, have not been completed in that year;
- appropriations for capital transactions;
- appropriations authorised subject to effective collection of the relevant charges;
- appropriations generated by transactions listed in the Act.

At the same time, since 1997 the annual budget bills have suspended this provision in order to control expenditure more thoroughly, avoiding any deviation from government budgeting in line with the policy of restraint.

4.5 No expenditure can be committed unless it is covered by appropriations in the budget, and any measure contrary to this rule is null and void. The only lawful arrangement in this respect is that the government, on the recommendation of the Minister for Economic Affairs and Finance, may issue treasury advances to meet non-deferrable expenditure, up to a ceiling of 1 per cent of total appropriations authorised in the annual budget bill, in the following two circumstances:

- when discussion of an extraordinary or supplementary appropriation has been launched and the Council of State has issued a favourable ruling;
- on the enactment of a bill introducing new obligations which require an extraordinary or supplementary appropriation.
- In the event of the new appropriation failing to receive approval, the advances will be cancelled and charged to the ministry or agency where the charge will cause least disruption of public services.

4.6 In each financial year the government sets the number of posts which may be filled in government organisations, via the subsequent recruitment exercise, subject to the opinion of the Minister for Public Administration and to the principles of public announcement, competition, merit and ability. This clearly has to be taken into account when preparing annual budgets, with regard to the appropriations for Chapter I, Staff Expenditure. Industrial staff and civil servants are hired under the procedure set down in the Public Service Act (30/84) and regulations pursuant thereto; that Act sets the basic remuneration (reflected each year in the budget, as the government decides) and all other terms of employment. As a result, managers have no flexibility in this area. What is more, established civil servants can only be dismissed in the circumstances set out in the Public Service Act.

5. Accrual Accounting and Budgeting

5.1 The Spanish Government uses two types of accounting, for different purposes. The aim of asset accounting is to see that the annual accounts faithfully reflect the unit's assets, financial position and outturn. The aim of budgetary accounting is to allow the execution of the budget to be checked and monitored at all stages in the process.

Part 2 of the accounting principles section of the General Plan for Public Accounts (*Plan General de Contabilidad Pública*), approved by order of the Minister for Economic Affairs and Finance of 6 May 1994, states that accrual is one of the compulsory principles for accounts, so that expenditure and revenue are to be charged in line with the real flow of goods and services that they represent, and not at the time when the monetary or financial flow deriving therefrom occurs.

Nevertheless, the budget and budgetary accounts are directed at monitoring claims and liabilities until they are actually collected or paid out. This approach means that it is more appropriate to use a modified cash basis of accounting (commitments and obligations/claims) than an accrual basis.

5.2 The use of different principles for asset and budgetary accounts has some drawbacks, which can be overcome in practice. Asset accounting, viewed as a form of management accounting that includes cost accounting, strictly embraces the accrual principle. Budgetary accounting keeps a modified cash approach, while distinguishing the successive stages in the execution of expenditure (authorisation/allocation/commitment and obligation), and the establishment and collection of revenues.

The data supplied in the budgetary accounts are being reviewed on the basis of SNA principles and methods, which in fact means some convergence towards the latter's accrual approach.

5.3 The principles governing public accounts apply to statements by individual accounting units and to consolidated government financial statements.

5.4 The frequency at which financial statements are audited by the relevant agency (*Intervención General de la Administración del Estado*), and the scope of auditing (overall, or by areas of expenditure or revenue), are determined by the type of financial supervision to which each branch of government is subject.

5.5 The General Plan for Public Accounts sets general rules and makes no special distinctions for particular assets. This is no bar to special rules adjusting the Plan to the particular functions of individual public bodies.

5.6 The current version of the Plan devotes its first section to accounting principles, containing the set of principles formulated in the paper “Principles of public accounting” drawn up by the Committee on Principles and Rules of Public Accounting. The latter is composed of representatives of government services, the Audit Board, private auditors’ associations, official and private accounting regulators, and academics. It is this committee which establishes public accounting principles.

5.7 Article 48.Uno.a) of the revised General Budget Act, approved by Royal Legislative Decree 1091/1988, provides that the budget is the systematic, comprehensive and detailed expression of the obligations that the central government and its autonomous agencies may accept, at most, and the claims that are expected to be collected, during the period in question.

6. Capital Budgeting

6.1 Financial statements of expenditure and revenue treat capital and operating items together, although the economic classification makes a distinction between the two at chapter level.

6.2 Spain has never had a separate capital budget and there are no plans to introduce one.

Questions 6.3 --> 6.6: not relevant.

6.7 Article 53.Primera.d) of the revised General Budget Act provides that the economic classification of public expenditure must show operating and capital expenditure separately, and in the latter a distinction has to be made between capital investment, capital transfers and changes in financial assets and liabilities. This rule applies to all public bodies.

6.8 Under the provision mentioned above, the primary breakdown in the economic classification presents capital expenditure under four heads:

- Chapter 6 Capital investment
- Chapter 7 Capital transfers
- Chapter 8 Financial assets
- Chapter 9 Financial liabilities.

6.9 The medium-term budgeting programme in Spain covers all public expenditure, both operating and capital, though this is no bar to the particular nature of each type of expenditure determining the manner in which it is programmed. With infrastructure expenditure, for example, which in a good many instances will represent multi-year outlays, the statements used when preparing budgets include the expenditure that will have to be met in subsequent years.

6.10 Article 23 of the revised General Budget Act provides that the financial resources of central government and each of its autonomous agencies are designed to meet the entirety of their respective obligations, unless the earmarking of resources is specified by law. Earmarking is unusual, although it should be noted that funding from the European Union budget is allocated to the purposes for which it is provided.

6.11 Chapter 3 in the economic classification shows financial expenditure, which includes interest and other financial expenditure arising from government borrowing, but no link can be established between borrowing and the financing of the acquisition of public capital, given the rule that revenue and expenditure are not linked. There is no other type of budgetary expenditure related to the use of capital.

6.12 Articles 49 and 63 of the revised General Budget Act provide for annual budgeting by stating that the budget year shall be the calendar year and that only obligations flowing from purchases, works, services and expenditures in general occurring in the same calendar year can be charged to appropriations in that budget. This entails approval, year by year, of appropriations required to meet obligations flowing from multi-year projects.

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The cost of multi-year capital projects will be attributed separately to the budget year and three forward estimates years and moneys appropriated accordingly. However, under the accrual environment, an appropriation for capital works in a particular year may be drawn down over more than one year in some cases (e.g. where there are delays in a project).

1. Fiscal performance

1.1 The government's fiscal performance last year (1997) and the outlook for the current fiscal year (1998)

In billion of kronor, current prices	Preliminary outcome 1997	1998 (Budget Bill)
Revenues	649	656
<i>percentage of GDP</i>	37,2	35,6
Expenditure	655	665
<i>percentage of GDP</i>	37,5	36,1
Financial savings	-19,2	-9
<i>percentage of GDP</i>	-1,1	-0,5
Borrowing requirement	6,2	15,0
<i>percentage of GDP</i>	0,4	0,8
Stated debt	1432	1463
<i>percentage of GDP</i>	82,0	79,4

1.2 The government's medium-term fiscal policy objectives

	1998	1999	2000
Financial savings as a percentage of GDP (public sector)	0,0	0,5	1,5
Expenditure ceiling* (state)			
<i>billions of kronor, current prices</i>	720	735	744
<i>percentage of GDP</i>	39,1	38,1	36,8

* Including the social security system but excluding interest on central government debt.

2. Role of the Legislature

2.1 No, there are no such restrictions.

2.2 The legislature typically enacts the budget as proposed by the government.

When the Budget Bill has been presented by the government on the 20th of September the opposition parties have got the possibility to present their budget alternatives within a two weeks period. There are about 2500 motions proposed by the Parliament members. The motions contains about 9000 amendments. How many of these that have budgetary matters is unknown. When handling the Budget Bill for 1997 Parliament exceeded two expenditure areas and reallocated funds within two (out of 27) expenditure areas. When handling the Budget Bill for 1998 the Parliament reallocated funds (about 90 million SEK) within five expenditure areas.

It is to early to draw any conclusions about how the new budget process effects the role of Parliament (see 2.4).

2.3 One Budget Bill covers the central government and social security system.

2.4 *What are the key steps taken by the legislature in considering the budget?*

Parliament uses a two-step procedure when it decides on the budget.

The first step: With the spring decision on total expenditure ceiling being a binding restriction (see 2.6), Parliament votes on the distribution of total expenditure over the expenditure areas. In this first step Parliament also comes to a decision on all tax changes and presents an over all estimate of the budget revenues.

The second step: Parliament decides on the appropriations within each expenditure area. This is done with one single decision for each expenditure area. The sum of all appropriations within an expenditure area are not allowed to exceed the frame decided in the first step. This means that any counter-proposal from opposition parties for an increased or new expenditure must be matched by another that reduces expenditure by at least the same amount.

What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable?

There are 16 standing committees in the Parliament. The Standing Committee on Finance is responsible for the preparation of the first step, however it collects the opinions of the other Committees. The 15 committees (incl. The Standing Committee on Finance) deal with one or more expenditure areas in the second step.

Do heads of government ministries and agencies typically testify at committee meetings?

The committees can invite whoever they want to a hearing. It occurs that the head of an agency or a deputy minister - but very rarely a minister - is present to testify at a committee meeting.

Are committee meetings typically open to the public?

Normally not, but the committees decides on this themselves.

2.5

- Each party group in Parliament has staff funded by public grants. The staff includes some officials (normally 5-10) recruited on political grounds dealing within budget matters.
- Parliament is served by The Research Service of The Riksdag (28 officials). One part of this is the Budget office (3 persons) which can assist the party groups with calculations of budget effects of different proposals.
- Each Committee has a staff of 3-7 officials (not recruited on political grounds) dealing within budget matters

2.6 When the new budget process was introduced, the Government proposed total expenditure ceilings for three years (1997-1999) in the Spring Fiscal Policy Bill in April 1996. In the Spring Bill 1997 the Government proposed a total expenditure ceiling also for 2000 (and so on). In June every year, Parliament decides on the ceilings for the next three years. The Spring Fiscal Policy Bill also includes estimated expenditure ceilings for each one of the 27 expenditure areas for the next year (year one).

The Budget Bill in September includes the final proposals on ceilings for the expenditure areas and also proposals for each appropriation. In November and December Parliament decides on this in two steps; first the 27 expenditure ceilings and then the appropriations within each area.

2.7 The main focus in the presentation is on outputs and outcomes and the purpose is to show if the objectives (which are of interest for Parliament) are fulfilled. This information is one input to the proposals in the Budget Bill and Parliament uses the information to judge the proposals.

2.8 All appropriations are voted annually.

2.9 There have been two supplementary budgets in each of the past two years. The first one is presented in the Spring Fiscal Policy Bill in April. The second one is presented in the Budget Bill in September. The supplementary budgets are not allowed to increase the total expenditures over the expenditure ceiling.

3. Fiscal relations with lower levels of government

3.1 No, there are no such formal mechanisms but the economic situation in the lower government is taken into consideration when the fiscal strategy is formed.

3.2 No, the national government has no such role.

3.3 The Government imposes no borrowing restrictions on the local government. As from the year 2000 local governments' will be required not to borrow for other purposes than investments. This will work as a restriction against excessive borrowing.

3.4 There is an appropriation on the state budget that can be used for municipalities and county councils which, due to special circumstances, are in a desperate economic situation. Nine municipalities have been given extra ordinary grants 1997 to an amount of totally 150 million SEK.

4. Managerial flexibility

4.1 There are about 500 appropriations. There are no separate appropriations for salaries, office accommodation, travel expenses or other items of spending.

4.2 The Government can reallocate funds from one item to another item within an appropriation without approval from Parliament. There are virtually no appropriations that contain both transfer- and administrative items. The Government is not allowed to reallocate expenditures between appropriations without approval from Parliament.

4.3 This depends on what services the manager wants to contract out. Exercise of authority or services that an agency have to produce according to its instruction or Letter of Instruction (*Regleringsbrev*), cannot be contracted out without approval. Other kinds of service might in many cases be contracted out.

4.4 Yes, all the unused portion will normally be transferred to the next year. The Government can of course limit the amount that might be carried over.

4.5 Agencies can normally borrow against future appropriations. The credit normally is 3 per cent of the appropriation but can be as high as 10 per cent. The agencies don't pay interest when they use this credit.

To satisfy the demand for working capital, most agencies have an interest account (normally corresponding to 10 per cent of the appropriation amount). Agencies that use this credit have to pay interest.

4.6 *Background:* Over the last ten years or so, elements of the employer role have gradually been delegated from the Government to the government agencies¹⁷. This change was a part of the movement to management by results. The agencies are now almost completely autonomous in employer related matters. Each agency recruits its own personnel and negotiates salaries with regard to the limits set by its appropriations.

Answer: Each agency decides autonomously on the number of staff, salaries, promotion, hiring and firing, etc. Within the limits set by each agency, line managers often have considerable discretion in decisions related to pay, hiring and firing, etc. Since 1990, 90 percent of all government employees have individual pay, with salary decided at local level where line managers often have a crucial influence. In determining individual pay, several criteria are considered by line managers - among the more important ones are individual work performance, and comparisons with salaries in other sectors.

5. Accrual accounting and budgeting

5.1 Since 1994 all government agencies produce accounts on a full accruals basis. The State budget is however on a cash or modified cash basis. This means that all agencies account for their appropriations or revenues on these bases for transactions that relate to the State budget, and *also* on a full accruals basis for all transactions in order to produce the financial statements required.

5.2 Presently, new principles for state budget appropriations and revenues are being investigated. The direction is towards more accrual accounting, it is too early, to say how far Sweden will go in that direction.

5.3 The annual accounts of the government agencies are fully consolidated into the Central Government Consolidated Financial Statement.

5.4 Each government agency is required to produce monthly accounts which are sent electronically to a central data base. These reports mainly include appropriations and revenues and financial statistics. The Statements of operation, Balance sheet and Cash flow analysis are prepared semi-annually. The Central Government Consolidated Financial Statement is produced annually.

Each agency's semi-annual report is checked by the auditors, who submit a simplified audit opinion to the Government. A full audit report is produced for each agency's annual report. Auditing is performed by the Swedish National audit office (SNAO), reporting directly to the Government. The SNAO is a government agency. The Consolidated Annual Report of the State, which has been presented since 1994 is not audited.

5.5 Heritage assets are not treated as assets. In the Central Government Consolidated Financial Statement there is a note declaring that the heritage assets are not included in the balance-sheet. There are however, some exceptions to the rule and the SNAO intends to analyse methods for valuation of heritage assets.

5.6 The government agencies apply accounting rules that are laid down in the Government Accounting Ordinance and the more detailed rules issued by the Swedish National Audit Office. The accounting standards applied correspond with some exceptions to the G.A.A.P.

5.7 The State budget is on a mixed cash or modified cash basis.

6. Capital budgeting

6.1 Capital and operating expenditures are consolidated in a single budget.

6.2 Before 1980 there was a capital budget. There are no plans to introduce a new capital budget.

6.7 Capital expenditures are not a separate category in the budget or within the major divisions of the budget.

6.8 The Budget Bill doesn't contain a separate chapter or set of tables summarising capital expenditures.

6.9 Every agency reports in its Budget Request to the Government how much it wants to invest in fixed assets for the next three years. These requirements are aggregated and presented in the Budget Bill. Agencies in the "infrastructure-area" make up multi-annual investment plans which have to be approved by Parliament.

6.10 All capital expenditures are financed with "normal" taxes.

6.11 The operating budgets of all government agencies include expenditures for interest and repayment on investment loans. The interest rate is based on the rate that the state has to pay on its borrowing. An agency pays interest and repayment at least twice every year.

6.12 All agencies are funded by Parliament every year. For some activities the Government asks Parliament to authorise commitments that will cause future payments (for example military investments). For some agencies with large investments in fixed assets the Government asks Parliament to approve

multi-annual investment plans. The request for the authorisation is included in the Budget Bill. The rationale is to avoid huge balances on the appropriations.

SWITZERLAND

1. Fiscal Performance

1.1 Latest fiscal performance and outlook (SF billion)

	1997	1998	Financial Plan		
	Account	Budget	1999	2000	2001
Expenditure	44.1	47.6	46.4	46.7	47.5
Revenue	38.8	40.0	40.0	42.0	44.1
Deficit	-5.3	-7.6	-6.4	-4.7	-3.4
in % of GDP	-1.6	-1.9	-1.6	-1.1	-0.8

1.2 It is the intention of the government and Parliament to virtually balance the budget at Federal level between now and 2001 (the maximum authorised deficit is some SF1 billion). In 1999 the deficit ought not to exceed SF5 billion. In the event of recession, the balancing of the budget may be deferred for a maximum of two years.

2. Role of the Legislature

2.1 The Confederation's draft annual budget, drawn up by the government, is submitted to the Federal Chambers (National Council and Council of States) for approval. The amount of leeway for reducing expenditure within the framework of the budget debate is limited, some 80 per cent of the Confederation's expenditure being virtually irreducible because of legal prescriptions or contractual commitments. Also, the taxes that the Confederation can levy and the maximum rates thereof are written into the Federal Constitution, and any amendment to the Constitution has to be adopted by the cantons and the people.

2.2 Parliament adopts the budget after making a certain number of changes to the draft submitted by the government.

Switzerland has a coalition government and Parliament (right-left), rather than a majority/opposition system. When the budget is debated, most of the coalition's proposals are adopted. For the 1996 budget, Parliament proposed changes (expenditure down SF180 million, receipts up SF60 million) which achieved a SF240 million reduction in the deficit (SF4 290 million) forecast in the Federal Council's draft budget. For 1997, some 80 changes were approved in the course of the budget discussions in Parliament. The

various cuts totalled some SF360 million and the increases in appropriations some SF620 million (in particular unemployment insurance, refugees). The result was an increase in the budget deficit of some SF240 million, which brought the budgeted deficit for 1997 up to SF5.8 billion. In 1998 the situation was much the same, with some 80 proposals being adopted. Cuts amounted to a total of SF370 million, increases in appropriations to SF650 million (not including appropriations redistributed within Ministries) and increases in receipts to SF20 million. All told, the deficit widened by SF260 million to 7.6 billion.

Proposals are also made by groups other than those belonging to the coalition parties in power and by Finance Committee minorities (in all, some 30 for the 1997 budget), but they are usually rejected.

In view of the sharp deterioration in Federal finances in recent years, Parliament is playing a more active role in the budget discussions, but its room for manoeuvre is limited because of the predominant share of tied expenditure (see 2.1 above).

2.3 The Confederation has a single budget encompassing all Federal expenditure. With regard to the major expenditure on rail infrastructure planned for the next few years, Parliament has decided to have recourse to a separate fund, which is an exceptional step to take. The cantons and communes also have their budgets.

2.4 The budget is first of all examined by the Finance Committee of each of the two Councils which make up the Federal Assembly - this on the basis of a draft message submitted by the Federal Council. At their first meeting the two Committees establish certain objectives and then, with the assistance of their sub-committees, draw up proposals for their respective Councils. The two Chambers of Parliament then debate the preparation of the budget. Appropriations which are the subject of a difference of opinion between the two Chambers are referred back to the Committees, and then from one Chamber to the other in order to arrive at an agreement. If necessary a conference can be called in an effort to reconcile the opposing views. Heads of administration may be called upon to provide information at sub-committee meetings. As and when required, the Finance Minister and other Ministers, accompanied by government representatives, will attend meetings of the two Finance Committees. Meetings of the Committees are not public.

2.5 The Finance Committees have a 7-strong secretariat. The Federal Finance Administration and the Federal Financial Control provide substantial logistical back-up (reports, attendance at meetings, minutes). The other offices provide reports and opinions at meetings, on request.

2.6 When the draft budget is being drawn up by the Federal Council, the Finance Committees may ask for an overall target to be respected.

2.7 All new tasks submitted to Parliament, which has to adopt the legal foundations, include information about the budgetary implications, staffing requirements and, where appropriate, the macroeconomic effects. The programme credits requested by the Federal Council include an indication of total expenditure on the programme over a clearly defined period.

2.8 Overall payment appropriations for the fiscal year are submitted to Parliament. Also, commitment appropriations extending over several years and authorising the commitment of expenditure up to the ceiling voted for a single project or a group of similar projects are opened by Parliament. The Federal Council submits them to Parliament, either in the form of a specific message or via the budget or supplementary budgets. In 1998, payments in respect of commitment appropriations authorized earlier were equal to some 10 per cent of the budget (see item 4.5).

2.9 Two supplementary budget bills are voted during the fiscal year (which is the same as the calendar year), the first being voted in June and the second requested in December. The procedure for these bills is the same as in the case of the budget (discussion by the Finance Committees and then by Parliament). Supplementary bills amounted to SF0.6 billion in 1995 (1.5 per cent of budgeted expenditure), 1.7 billion in 1996 (3.9 per cent) and 1.6 billion in 1997 (3.5 per cent).

While the implementation of a bill admits of no delay, the Federal Council may authorize it either with the consent of a Parliamentary committee (ordinary provisional additional appropriation) or, in an emergency, of its own free will (urgent provisional additional appropriation). Ultimately, it will require Parliamentary approval, in the normal way.

The Federal Council may be obliged to authorize minimal overruns on appropriations in January, following the adoption of the message concerning the second supplementary bill.

3. Fiscal Relations with Lower Levels of Government

3.1 Because the Confederation, cantons and communes enjoy financial autonomy, each accounting for about 1/3 of public expenditure, it is difficult, not to say impossible, to have a nationwide budget strategy.

That said, Article 31.5 of the Federal Constitution provides that the Confederation, cantons and communes should draw up their budgets with the imperatives of the economic situation in mind. Putting this provision into effect in a co-ordinated and global manner has not so far been possible.

Yet there are regular consultations on budgetary questions between the Confederation, cantons and communes. The Federal Finance Minister consults and informs his counterparts at cantonal level concerning every federal budget project which could have an impact on cantonal finances. Also, the Federal Finance Administration and Heads of cantonal finance authorities meet early every year, when the officials in charge of the Federal Budget inform the cantons of the directives which will be followed when preparing the following year's Federal Budget, as well as the economic parameters used for the budget estimates.

3.2 The Confederation is not empowered to intervene in the discussion or approval of cantonal budgets. The cantons, on the other hand, do as a rule have control over their communes' budgets and accounts. That control can take various forms; for example, the canton will refuse a commune's budget by not allowing it to borrow if its level of debt is already too high or taxation is at the highest level allowed under the law. If the commune does not submit a budget consistent with the legislation in force, the cantonal authorities may make the necessary changes, for example by increasing the amount of tax the commune can raise.

3.3 The Confederation does not place any restrictions on the cantons' borrowing, the latter being regulated by the capital markets themselves by means of a rating system which would not favour cantons whose fiscal policy was lax or which over-borrowed.

As was said under 3.2, the cantons supervise and monitor the communes' financial management, communal borrowing usually being subject to authorisation by the competent cantonal authority.

3.4 The Confederation's system of financial equalization enables the cantons to perform their tasks without placing an intolerable burden on their inhabitants. There is no general federal aid for cantons

which encounter financial difficulties, but assistance is available on a one-off basis for certain cantons which have to contend with natural disasters and do not have the resources to cope.

At communal level, it is possible for a badly managed commune to be brought under the supervision of a body of administrators appointed by the canton, which will take charge of the running of the commune and put it back on an even keel financially. Once stability has been achieved, a new executive will be elected and entrusted with the running of the commune.

If, because of its small size, a commune is not able to cope with its financial obligations, it can turn to one or more other communes with a view to merging. There are a lot of small communes in Switzerland, and many cantons have legislation which encourages mergers. As an incentive to merge, a canton can cover the debt of a commune willing to merge and/or grant it the funds it needs to create the missing basic public infrastructure.

SUISSE

1. Résultats budgétaires

1.1 Derniers résultats budgétaires et perspectives (milliards FS)

	Compte	Budget	Plan financier		
	1997	1998	1999	2000	2001
Dépenses	44.1	47.6	46.4	46.7	47.5
Recettes	38.8	40.0	40.0	42.0	44.1
Déficit	-5.3	-7.6	-6.4	-4.7	-3.4
en % du PIB	-1.6	-1.9	-1.6	-1.1	-0.8

1.2 Le gouvernement et le Parlement entendent pratiquement rééquilibrer les comptes à l'échelon fédéral d'ici l'an 2001 (déficit maximum autorisé d'environ 1 milliard). En 1999, le déficit ne devrait pas dépasser 5 milliards de francs. En cas de récession, le rééquilibrage des comptes pourra être reporté de deux ans au maximum.

2. Rôle du Parlement

2.1 Le projet de budget annuel de la Confédération établi par le gouvernement est soumis pour approbation aux Chambres fédérales (Conseil national et Conseil des États). La marge de manoeuvre permettant de procéder à des réductions de dépenses dans le cadre de la discussion du budget est limitée. En effet, environ 80 pour cent des dépenses de la Confédération ne peuvent guère être infléchies du fait de prescriptions légales ou d'engagements contractuels. En outre, les impôts que peut prélever la Confédération et leurs taux maxima sont inscrits dans la Constitution fédérale. Or toute modification constitutionnelle est soumise à l'adoption des cantons et du peuple.

2.2 Le Parlement adopte le budget après avoir apporté un certain nombre de corrections au projet présenté par le gouvernement.

La Suisse a un gouvernement et un parlement de coalition (droite-gauche), et non un système de majorité - opposition. Lors du débat budgétaire, les propositions de la coalition sont en majorité adoptées. Pour le budget 1996, le Parlement a proposé des modifications (dépenses: -180 millions, recettes: +60 millions) permettant une réduction de 240 millions du déficit prévu (4'290 millions) dans le projet du Conseil fédéral. Pour 1997, environ 80 modifications ont été acceptées lors du débat budgétaire au Parlement. Les différentes coupes se sont montées à environ de 360 millions et les majorations de crédits à environ 620 millions (notamment assurance-chômage, réfugiés). Il en est résulté un accroissement du déficit budgétaire d'environ 240 millions, ce qui a porté à 5,8 milliards le déficit budgétisé pour 1997. Pour 1998, la situation a été semblable: à savoir environ 80 propositions ont été adoptées. Les coupes se sont montées au total à 370 millions, les surcroîts de crédits à 650 millions (hors redistribution de crédits à l'intérieur

des ministères) et le surcroît de recettes à 20 millions. Au total, le déficit s'est creusé de 260 millions, pour atteindre 7,6 milliards.

Des propositions émanent également des groupes autres que ceux des partis de la coalition au pouvoir et des minorités des Commissions des finances (au total environ 30 pour le budget 1997), mais **elles sont en général refusées**.

Etant donné la nette détérioration des finances fédérales au cours des dernières années, le Parlement joue un rôle plus actif lors de la discussion du budget. Mais sa marge de manoeuvre est limitée par la part prépondérante des dépenses liées (voir 2.1 ci-avant).

2.3 La Confédération a un budget unique regroupant l'ensemble des dépenses fédérales. S'agissant des grandes dépenses d'infrastructure ferroviaire prévues pour ces prochaines années, le Parlement a décidé de recourir à un fonds séparé, ce qui est exceptionnel. Les cantons et les communes ont également leur budget.

2.4 Le budget, sur la base d'un projet de message soumis par le Conseil fédéral, est d'abord examiné par la Commission des finances de chacun des deux Conseils constituant l'Assemblée fédérale. Ces deux Commissions fixent lors d'une première séance certains objectifs, puis, grâce au travail des sous-commissions, établissent les propositions à l'attention de leur Conseil. Les deux Chambres du Parlement délibèrent ensuite sur l'établissement du budget. Les crédits faisant l'objet d'une divergence entre les deux Chambres sont retransmis aux Commissions, puis d'une Chambre à l'autre en vue de l'obtention d'un accord. Si nécessaire, une conférence de conciliation est appelée en vue de chercher une solution. Les responsables des administrations sont appelés, le cas échéant, à donner des informations lors des réunions des sous-commissions. Le ministre des finances et d'autres ministres selon les besoins, accompagnés des représentants de l'Administration, assistent aux séances des deux Commissions des finances. Les réunions des commissions ne sont pas publiques.

2.5 Les Commissions des finances disposent d'un secrétariat composé de 7 personnes. L'Administration fédérale des finances et le Contrôle fédéral des finances fournissent un soutien logistique majeur (rapports, participation aux séances, procès-verbaux). Les autres offices fournissent, sur demande, rapports et avis lors des séances.

2.6 Au stade de l'élaboration du projet de budget par le Conseil fédéral, les Commissions des finances peuvent demander de respecter un objectif global.

2.7 Toute nouvelle tâche proposée au Parlement -- qui doit adopter la base légale -- comporte des indications sur les conséquences budgétaires, les besoins en personnel et, le cas échéant, sur les conséquences macro-économiques. Les crédits de programme demandés par le Conseil fédéral comportent l'indication des dépenses totales pour le programme sur une période bien délimitée.

2.8 L'ensemble des crédits de paiement portant sur l'année budgétaire est soumis au vote du Parlement. En outre, des crédits d'engagement s'étendant sur plusieurs années et autorisant à engager des dépenses jusqu'à concurrence du plafond voté pour un projet unique ou un groupe de projets similaires sont ouverts par le Parlement. Le Conseil fédéral les soumet au Parlement soit par le biais d'un message ad hoc soit par la voie du budget ou de ses suppléments. En 1998, les paiements prévus au titre des crédits d'engagement autorisés antérieurement correspondent à environ 10 per cent du budget (cf point 4.5)

2.9 Deux collectifs budgétaires sont votés au cours de l'exercice budgétaire (qui correspond à l'année civile). Un premier l'est au mois de juin. Un second est demandé en décembre. Ces collectifs font

l'objet de la même procédure que celle appliquée pour le budget (examen par les Commissions des finances, puis par le Parlement). Les collectifs budgétaires se sont montés au total à 0,6 milliards en 1995 (1,5 per cent des dépenses budgétisées), à 1,7 milliards (3,9 per cent) en 1996 et à 1.6 milliards (3,5 per cent) en 1997.

Si l'exécution d'un projet ne souffre d'aucun retard, le Conseil fédéral peut l'autoriser soit avec l'assentiment d'une commission parlementaire (crédit additionnel provisoire ordinaire), soit, en cas d'urgence, de son propre gré (crédit additionnel provisoire urgent). Il requiert ultérieurement, selon la procédure ordinaire, l'approbation du Parlement.

Le Conseil fédéral peut être amené à autoriser des dépassements de crédits minimes au mois de janvier, après l'adoption du message sur le second supplément.

3. Relations avec les niveaux d'administration inférieurs

3.1 L'autonomie financière de la Confédération, des cantons et des communes, qui participent pour environ 1/3 chacun aux dépenses publiques, rend difficile, sinon impossible une stratégie budgétaire à l'échelon national.

L'article 31 quinquies de la Constitution fédérale prévoit pourtant que la Confédération, les cantons et les communes établissent leurs budgets compte tenu des impératifs de la situation conjoncturelle. La concrétisation de cette disposition sous forme coordonnée et globale n'a pas été réalisée jusqu'ici.

Cependant, des consultations budgétaires entre la Confédération et les cantons ont lieu régulièrement. Le Ministre fédéral des finances consulte et informe ses correspondants à l'échelon des cantons sur tous les projets budgétaires fédéraux qui auraient des répercussions sur les finances cantonales. En outre, une rencontre entre l'Administration fédérale des finances et les Chefs des administrations cantonales des finances a lieu au début de chaque année. A cette occasion, les responsables du budget fédéral communiquent aux cantons les directives qui seront à la base de l'élaboration du budget fédéral de l'année suivante ainsi que les paramètres économiques retenus pour les estimations budgétaires.

3.2 La Confédération n'a pas pouvoir d'intervenir dans l'examen ou l'approbation des budgets des cantons. En revanche, les cantons assument en général un contrôle des budgets et des comptes de leurs communes. Les formes de ce contrôle sont diverses. Par exemple, le canton refusera le budget d'une commune, en ne lui accordant pas l'autorisation d'emprunter, si l'endettement et déjà trop élevé ou la fiscalité est au maximum prévu par la loi. Si la commune ne présente pas un budget conforme aux dispositions légales, il est possible que l'autorité cantonale procède aux rectifications nécessaires, par exemple en augmentant la quotité fiscale de la commune.

3.3 La Confédération n'impose pas de restrictions aux activités d'emprunt des cantons. La régulation des emprunts cantonaux est réalisée par le marché des capitaux lui-même, par un "rating" qui serait défavorable pour les cantons à politique budgétaire laxiste et à endettement trop prononcé.

Comme signalé sous 3.2, les cantons exercent une surveillance et un contrôle de la gestion financière des communes. Les emprunts des communes sont en général soumis à autorisation de l'autorité cantonale compétente.

3.4 Le système de péréquation financière de la Confédération met les cantons en mesure d'effectuer leurs tâches sans qu'il en résulte une charge fiscale insupportable pour leurs citoyens. Il n'y a pas d'aide

fédérale générale pour les cantons qui rencontreraient des difficultés financières. En revanche, il peut y avoir aide financière ponctuelle, par exemple pour un ou des cantons qui doivent faire face aux dégâts d'une catastrophe naturelle et que les ressources nécessaires dépassent leurs moyens.

A l'échelon des communes, il est possible qu'une commune mal gérée soit mise sous tutelle. Un collègue d'administrateurs désignés par le canton prend en charge les affaires de la commune et les remet à flot. Une fois la situation stabilisée, des élections désignent un nouvel exécutif à qui est remis la gestion de la commune.

Si une commune, en raison de sa petite taille, n'est plus en mesure de faire face à ses obligations financières, elle peut se rapprocher d'une ou d'autres communes en vue d'une fusion. En Suisse, les communes de petite taille sont nombreuses et plusieurs cantons disposent d'une législation encourageant les fusions. Comme incitation à la fusion, le canton peut reprendre la dette de la commune candidate à la fusion et/ou lui octroyer les fonds nécessaires pour la réalisation des infrastructures publiques de base manquantes.

4. Flexibilité en matière de gestion

4.1 Le **budget du compte financier** de la Confédération comprend plus de 1000 postes de paiement (articles budgétaires) qui sont votés par le Parlement. En regard de ceux-ci figurent un peu plus de 300 articles destinés à enregistrer les recettes estimées. Les dépenses et les recettes sont classées par offices, par groupes par nature du plan des comptes afin de pouvoir mieux surveiller et gérer l'utilisation des fonds affectés (catégories de dépenses / de recettes) et au cas où les recettes sont affectées, elles sont différenciées selon les mesures individuelles. Par exemple, les demandes de crédits pour la rétribution du personnel doivent être, en vertu du principe de la spécialité, séparées de celles qui concernent les autres dépenses de fonctionnement (dépenses purement administratives). En principe, les subventions sont ventilées selon les mesures poursuivies. La Confédération ne connaît pas une ventilation des articles selon des programmes proprement dits.

4.2 **Les transferts entre crédits de paiements** ne sont en principe pas autorisés. Lorsque qu'un crédit se révèle insuffisant, il convient de **demander un crédit supplémentaire**. Il n'est pas admis d'utiliser les crédits relevant du domaine des transferts (subventions) pour couvrir des dépenses administratives.

4.3 Pour autant que les crédits de paiements octroyés et spécifiés à cet effet se révèlent suffisants, les personnes compétentes en matière de gestion budgétaire ou financière au niveau office fédéral peuvent par exemple donner des ordres à des tiers étrangers à l'administration, ordres qu'il était prévu de faire exécuter par le personnel propre de l'office.

4.4 Les crédits de paiements non entièrement utilisés, les **soldes de crédit**, sont en principe périmés en fin d'exercice. Il existe toutefois la possibilité de recourir à un **report de crédit** l'année suivante notamment dans les cas spéciaux où la réalisation d'un projet ou d'un ouvrage subit des retards. Ce transfert doit pourtant être soumis au Parlement pour approbation (forme particulière du crédit supplémentaire).

4.5 Un crédit de paiement donne autorisation à engager des dépenses pour un but déterminé durant l'exercice. L'autorisation **d'avances** en prévision de l'octroi ultérieur de crédits de paiement n'est pas prévue ou est contraire au système. En revanche, le Parlement autorise l'administration à engager des

dépenses, sous la forme d'un crédit d'engagement, pour un projet déterminé jusqu'à concurrence d'un montant maximum autorisé au-delà de l'exercice budgétaire.

4.6 Jusqu'en 1996, le Parlement fixait par la voie d'un arrêté fédéral concernant le budget l'effectif global du personnel. Ce **plafonnement des postes de travail** a été remplacé entre-temps par une limitation de la rétribution du personnel pour l'administration générale de la Confédération (passage à la gestion en fonction des coûts). Les responsables au niveau office fédéral peuvent agir en toute liberté lors de l'engagement de personnel pour autant que le poste à occuper est autorisé. Au cours de la durée de la législature de quatre ans, le **licenciement** d'agents en rapports de service ne peut avoir lieu qu'exceptionnellement pour des motifs importants, par ex., en cas d'incapacité de service, malversations, etc. Concernant les autres rapports de service, des délais plus courts sont applicables. Dans des cas fondés, une réélection n'est possible que sous certaines réserves. Le **classement** d'un agent dépend en premier lieu des exigences requises par le poste, ainsi que de l'âge et de l'expérience de son titulaire. Le **système** est fondé sur une **classification** différenciée, chaque poste étant évalué séparément. Depuis 1996, les offices disposent à titre comparatif de moins de crédits pour verser des allocations de performances extraordinaires. D'autres mesures financières visant à promouvoir l'efficacité dans le travail sont en préparation.

5. Comptabilisation sur la base de l'exercice et budgétisation

5.1 Les **opérations de paiement** (dépenses et recettes) figurent dans le **compte financier**. Ce dernier constitue la base de la gestion globale des finances fédérales, il permet de **fixer les priorités** et de **contrôler** l'exécution du budget. Ce compte financier est complété d'un **compte de résultats** indiquant les résultats de la gestion du patrimoine de la Confédération, ainsi que du **bilan**. Certains offices fédéraux, plus précisément ceux qui sont gérés selon des critères industriels, tiennent en plus de la comptabilité publique (système caméral) un tout nouveau système comptable fondé à la fois sur la **comptabilité financière et la comptabilité d'exploitation**. Ce système est régi selon les principes appliqués dans les entreprises privées, mais tenant également compte de ceux des entreprises et établissements de la Confédération. Les dépenses résultant du **service de l'intérêt de la dette publique**, ainsi que les charges pour les prestations non assurées **aux caisses de pensions** versées aux collaborateurs mis à la retraite, prises en charge par l'employeur, ne figurent pas dans les comptes d'exploitation. Elles n'apparaissent que dans le compte financier.

5.2 Au début de l'année 1997, la **nouvelle gestion publique** a été introduite dans certains secteurs de l'administration. Dans le cadre de tests d'application, démonstration devait être faite que la gestion par mandats de prestations et enveloppes budgétaires (GMEB) représente une alternative à la gestion administrative actuelle. Les secteurs administratifs gérés selon la GMEB sont d'une part, toujours incorporés dans le compte financier, mais sont d'autre part, obligés de tenir en plus un **compte des coûts et prestations**. Ce dernier doit permettre à l'avenir d'évaluer la **rentabilité** de la gestion administrative. Actuellement, une introduction générale du nouveau concept de gestion administrative n'entre pas en ligne de compte. Il faut d'abord faire une analyse (**évaluation**) afin de pouvoir juger si le nouveau système est utilisable.

5.3 Il n'est pas prévu d'effectuer une **consolidation des coûts et des produits**. Le compte financier reste l'instrument prioritaire de la gestion budgétaire aussi bien au niveau administration générale de la Confédération qu'au sein des départements (ministères).

5.4 Les **unités administratives**, qui sont gérés selon la GMEB et qui sont obligés de tenir un **compte d'exploitation**, présentent **tous les trois mois** un **rapport** destiné au département dont il dépend.

En revanche, une **clôture intermédiaire périodique du compte financier** ne permet pas de prévoir en cours d'exercice quel sera le résultat comptable probable ou de déterminer l'écart éventuel par rapport au budget. Aujourd'hui encore, le recours à une autorité de surveillance indépendante chargé d'effectuer un **audit** est abandonné.

5.5 Le **patrimoine national** indiqué dans le questionnaire ne figure pas comme poste du bilan.

5.6 Les **principes de la gestion budgétaire et comptable** doivent garantir une utilisation judicieuse, efficace et rationnelle des crédits. Ils s'inspirent des dispositions en vigueur dans l'économie privée, mais par contre tiennent compte des exigences spécifiques à une gestion financière publique.

5.7 Les crédits mis à disposition de la Confédération sont ouverts par le Parlement dans le cadre du **budget financier**. Les résultats des comptes d'exploitation sont, le cas échéant, pris en considération lors de la détermination des besoins financiers.

6. **Budgétisation des opérations en capital**

6.1 A l'inverse des budgets des collectivités régionales subordonnées (cantons et communes), les dépenses courantes et les dépenses d'investissement de la Confédération sont regroupées dans un seul compte, le compte financier (grâce à la classification sommaire du plan comptable général selon les opérations financières courantes et celles d'investissement).

6.2 Le compte financier, qui enregistre l'ensemble des dépenses et des recettes, est tenu sous cette forme depuis le début des années cinquante. Le deuxième degré du compte administratif représente le compte de résultats, dont le résultat correspond à la variation du découvert du bilan. Aucune modification du modèle comptable n'est prévue (dominance des dépenses de transfert, quote-part moindre des investissements propres).

6.7 En raison de l'importance centrale de la délimitation des domaines de responsabilité en matière de gestion financière et de contrôle y relatif, les dépenses sont en premier lieu ventilées selon la structure organique (institutions) et à l'intérieur de celle-ci, selon les catégories de dépenses (notamment personnel, biens et services, dépenses d'armement, intérêts passifs, parts aux recettes fédérales, contributions à des dépenses courantes, biens d'investissement, prêts et participations, contributions à des investissements).

6.8 Les dépenses d'investissement, prêts compris, ne représentent que le 15 pour cent environ de l'ensemble des dépenses. Le message concernant le budget destiné au Parlement présente un commentaire sur les dépenses classées en premier lieu selon les groupes de tâches. La partie statistique de ce même message montre l'ensemble des dépenses d'investissement dans une classification comportant quatre degrés.

6.9 Le programme des routes nationales et l'arrêté fédéral relatif à la construction des lignes ferroviaires suisses à travers les Alpes, qui se répercutent sur le budget annuel représentent les exemples des programmes d'investissement à long terme. Divers programmes d'investissement à moyen terme en matière d'infrastructure sont gérés sous forme de crédits d'engagements et de plafonds de dépenses pluriannuels (universités et écoles professionnelles, protection des eaux, améliorations foncières, aérodromes, encouragement à la construction de logements, bâtiments administratifs)

6.10 Les exemples les plus importants concernant des projets relatifs à l'infrastructure, financés par des recettes affectées sont les routes nationales et les transversales ferroviaires alpines (la dernière n'étant financée qu'en partie par des recettes affectées).

6.11 Seuls les intérêts actifs et passifs figurent comme dépenses et recettes courantes dans le compte financier. Les amortissements constituent une partie du compte de résultats (leurs taux variant selon les prescriptions relatives à l'évaluation du bilan).

6.12 Les programmes d'investissement et les projets importants sont autorisés par le Parlement par arrêtés séparés, en principe par le biais d'un crédit d'engagement ou d'un plafond de dépenses. Les besoins financiers annuels sont inscrits dans le compte financier et sont approuvés par le Parlement par la voie du budget (principes légaux de l'universalité, de l'unité du budget; tableau récapitulatif des dépenses et de leur financement qui constitue pour la Confédération la base centrale de gestion en matière de politique financière).

TURKEY

1. Fiscal Performance

1.1 The consolidated budget for the Fiscal Year 1997 was projected to be balanced. The total expenditures were programmed as 6.254.921 billion TL, while the consolidated budget revenues were programmed to be equal to the expenditures. However the 1997-year's budget could not be kept balanced because both revenues and expenditures deviated from the projected levels.

The deviation in the revenues stemmed mainly from the low realization of the non-tax normal revenues such as privatization revenues. On the other hand, the increases in the expenditure side of the budget stemmed mainly from the personnel salaries, social security institution's payments and interest payments.

Therefore, for the fiscal year 1997, the consolidated budget expenditures, revenues and deficit amounted to 8.035.178 billion TL, 5.854.331 billion TL and 2.180.847 billion TL respectively. The rate of budget deficit to GNP was 7.5 percent, while the primary budget balance was realized as 0.3 percent.

In 1998 fiscal year it is considered that budget execution and cash management will be implemented more efficiently and effectively

The main objectives of the 1998 budget are to lower inflation, to reduce unproductive public expenditures while increasing the investment expenditures on education, energy etc., and to transfer privatization receipts for realizing the investment projects, and to limit the amount of Government borrowing, including both government bonds and bills up to the budget deficit. For the revenue side, broadening the tax base, and accelerating the privatization activities will increase the consolidated budget revenues.

The consolidated budget expenditures, revenues and deficit for the fiscal year 1998, are programmed as 14.789.475 billion TL, 10.800.000 billion TL, and 3.989.475 billion TL respectively. The rate of the budget deficit to GNP is projected to be 8.1 while the primary budget surplus will be 3.9 percent. To ensure budgetary discipline some measures will be implemented to reduce the budget deficit to GNP ratio.

CONSOLIDATED BUDGET EXPENDITURES AND REVENUES (Billion TL)				
	1997	GNP (%)	1998	GNP (%)
Revenues	5.854.331	20,1	10.800.000	22
Tax Revenues	4.750.451	16,4	8.900.000	18,1
Expenditures	8.035.178	27,7	14.789.475	30,1
Interest Payments	2.277.917	7,8	5.895.000	12
Balance	-2.180.847	7,5	-3.989.475	8,1
Primary Budget Balance	97.070	0,3	1.905.525	3,9

1.2 Medium Term Fiscal Policy

1998 Fiscal Year Budget has been prepared to be a sound fiscal instrument to achieve a three year stabilization program that aims to reduce inflation to one digit levels by the end of the program. Budget policy will be supported by structural reforms such as tax reform, social security reform, local administration reform, restructuring of the public administration, privatization, and financial sector reform

2. Role of the Legislature

2.1 The draft Budget Bill submitted to the Parliament is debated in two level discussions. First level is the Plan and Budget Committee and second level is general meeting of the Parliament. During the debates, Plan and Budget Committee can propose any amendments which would change the Budget Bill. But, in the second level, members of the Parliament can not propose amendments that would increase expenditure or decrease revenues.

2.2 The role of Parliament in budget cycle has been determined in the Constitution. The Constitution dated 1982 outlines the specific and general terms of the government's budget practices and procedures and the role of the Parliament in budget cycle has been same in general up to date.

The amendments for the budget appropriations accepted by the Committee in three years are as follows:

	Billion TL					
	1996		1997		1998	
	Expenditure	Revenue	Expenditure	Revenue	Expenditure	Revenue
Government Proposal	2780.0	2370.0	6255.0	6255.0	14793.0	10800.0
Increased-Decreased Amount in the Committee	788.5	280.0	106.7	-79.1	3.5	
Cutting Amount by the Committee	57.5		106.8			
TOTAL	3511.0	2650.0	6254.9	6254.9	14789.5	10800

2.3 The annual Budget Bill submitted to the Parliament is composed of general budget and annexed budget. The General Budget covers the appropriations determined for the ministries and legislative, judicial and other executive bodies of the Government. The Annexed Budget includes the appropriations determined for agencies which are mainly universities and a number of general directorates. According to the General Accounting Law, which is the legal framework of the budget structure, the Annexed Budget Agencies have revenues of their own. But, with a few exceptions, most of the annexed budget revenues are the transfers from the general budget called as treasury aid.

2.4 The draft Budget Bills are discussed in two level in Parliament. The Plan and Budget Committee which is composed of 40 members of the Parliament first discuss the Budget Bill. It is a technical committee about economical and fiscal issues. The Committee can discuss all aspects of the Budget Bill and propose any amendments. The managers of the ministries and other agencies can join the meetings of the Committee if they wish. And also the meetings of the Committee are open the press and broadcasting. After discussed and adopted by the Committee, the Budget Bill is submitted to General Meeting of the Parliament. The Budget Bill has been discussed and voted in the general meeting. After the final approval by the Parliament, the Budget Bill has been submitted to the President of the Republic for signing. The Budget Bill, in generally, approved before the fiscal year that it will be enacted and issued in Official Gazette.

2.5 The draft Budgets of the agencies are given to the members of the Committee. The members can obtain the information from the agencies if they need.

2.6 During the budget preparation cycle, government determines a ceiling for personnel, other current, investment and transfer appropriations. The ministers discuss the ceilings and other economic targets.

2.7 The budget justification prepared by the Ministry of Finance and including the budget appropriations of the current year and the past four years, the budgets of the ministries and the budgets of the other agencies are submitted to the Parliament. If they need, the members of the Parliament can obtain detailed information from the agencies.

2.8 All appropriations are voted in annual base.

2.9 If the appropriations granted by the Parliament can not meet the required spending needs, then supplementary budget bill are prepared and submitted to the Parliament. Its approval procedure is the same as the annual budget.

3. Fiscal Relations with Lower Levels of Government

3.1 There is no formal mechanism in place for consultation with lower levels of government (e.g. municipalities) to establish a national fiscal strategy.

3.2 The budgets of the municipalities are approved by the Ministry of Interior. If there is no approval, the budgets of the municipalities are not being effective.

3.3 The national government through the tracking activities of the State Planning Organization controls the investments of municipalities to be financed by borrowings.

3.4 Central government quarantines the reimbursements resulting from borrowings of the municipalities. If they experience financial difficulty to meet their reimbursement obligations, the Treasury covers such debts.

4. Managerial Flexibility

4.1 The main services carried out by ministries and agencies are shown as program, which includes the subdivision of subprogram, activity or project (for investment expenditures). Each activity contains expenditure items coded from 100 to 900 such as personnel expenditures, travel expenses, purchase of services, consumption goods and material, purchase of fixtures, purchase of machinery, equipment and vehicles, purchase of immovable and construction, other payments and transfer payments. The budget has been approved by the Parliament at the program level.

4.2 Appropriations can be transferred from one item to another within a program with the approval of the Ministry of Finance. However, appropriations should not be transferred among the programs in pursuit of principles determining with the General Accounting Law. Transfer among programs can be done only for personnel expenditures. On the other hand, the Budget Law can authorize the Ministry of Finance to transfer appropriations from one program to another under the certain conditions.

Ministry of Finance has also authority to transfer to the “contingency fund” existing at its own budget personnel appropriations that can not be used at the end of the current year.

4.3 The services such as cleaning and cooking can be procured to private sector with the decision of executives if there are adequate appropriations for these services in the budget.

4.4 The appropriations that are not used are cancelled at the end of the current year.

4.5 It should be provided at least 10 percent of the total project cost in order to contract the projects extending over several years. Such kind of investment projects are generally concerned with the construction activities.

4.6 There is no flexibility in hiring and firing staff. The agencies can hire personnel in the event that they have adequate personnel appropriation in their budget. They are also to get approval for the positions of the civil servants, contracted personnel and workers from the Ministry of Finance. The wages of workers are determined with collective bargaining while the other personnel’s salaries are determined by the laws.

Accrual Accounting and Budgeting

5.1 In the existing system, cash basis for revenues and accrual basis for expenditures were adopted. In spite of accrual basis adopted in expenditure side, some difficulties stems from implementation move the system to cash basis. For example, expenditures that accrued but not paid because of shortages of appropriations can not be recorded although the goods or services are delivered.

Beginning from 1994, The Uniform Accounting System which is accrual based and consistent with Generally Accepted Accounting standards were imposed to commercially operate public entities (including revolving funds) along with private sector. General and annexed budget agencies, extra budgetary funds, local governments and social security institutions were excluded.

5.2 In the context of the Public Finance Management Project financially supported by World Bank, a new public accounting system was being developed. With this accounting plan, the results based both on accrual (operating results) and on cash (budget execution results) can be produced.

5.3 At the beginning the accounting plan will cover general and annexed budget agencies. Depending on achievements in this part, it will be replicated for other components of public sector (i.e. local governments, funds and social security institution). After this point, consolidated statements for whole of Government can be generated.

5.4 Existing frequency of reporting will be maintained. But depending on efficient use of information system and user requirements reporting may be more frequent.

5.5 Heritage and natural assets will be excluded.

5.6 Uniform Accounting System and draft public accounting system has been developed unilaterally by Government.

5.7 The Budget is prepared and submitted to the Parliament on the cash basis.

6. Capital Budgeting

6.1 Investment appropriations and current appropriations are consolidated in a single budget.

6.2 In 1973, the classification of budget was changed from the classical budgeting system to the program budgeting system. Now, It is carried out a project on the basis of "GFS".

6.7 Investment appropriations are allocated as separate category within the budget. The investments to be made by both ministries and agencies are shown in their own budgets. These investment appropriations can be aggregated according to economic classification existing in our budget system.

6.8 The main budget document does not include details in investment. The State Planning Organization prepares the annual investment program that shows details related to investments and this program is issued in Official Gazette.

6.9 The Five-Year-Development-Plan and the annual program depicting what government will do throughout the year in the pursuit of development plan are also prepared by SPO. The annual program determines the priorities and the basic principles in the economy. The budget should be compatible with this annual program.

6.10 There are some capital expenditure financed differently from expenditures such as Fuel Tax. This tax can be used in the construction of roads and dams.

6.11 The current budget only contains the dept interests related to investment expenditures.

6.12 The investment appropriations which extend over one year are shown within the budget each year until the investment project will be completed.

UNITED KINGDOM

1. Fiscal Performance

1.1 Please outline the government's fiscal performance over the last fiscal year and the outlook for the current fiscal year, in nominal terms and as percentage of GDP.

The budget deficit, on all definitions, fell sharply in 1997-98 - table 1.

Table 1: UK budget deficits

PSBR		General government financial deficit			Current balance	
			£bn	% of GDP	£bn	% of GDP
£bn	% of GDP	1996-97	22.7	3.0	29.7	3.9
- 20.2	- 2.7	1997-98	0.9	0.1	5.7*	0.7*
1.2*	0.2*	*forecast				

2.1 Are there any restrictions on the ability of the legislature to modify the Budget proposed by the government. If so, what form do these take?

The House of Commons has the same powers to amend Budget tax proposals (contained in a Finance Bill) as they do other Bills, by succeeding in achieving a majority in favour of any amendment put forward. However, the ability of the House of Lords to amend a Finance Bill is significantly restricted. By convention, the House of Lords defers the right to deal with fiscal matters to the House of Commons and does not amend Finance Bills, or even enter upon the procedure under which a Finance Bill could be amended. The Parliament Acts apply to the majority of Finance Bills and prevent the House of Lords delaying the passage of a Finance Bill for more than a month.

The legislature cannot increase the Government's spending proposals set out in Main Estimates and in practice the ability to do other than accept them is very limited. Similar rules apply to the House of Lords with respect to their ability to amend Consolidated Fund Bills, as apply to Finance Bills.

2.2 *Does the legislature typically enact the budget as proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by government and opposition members of the legislature, respectively? How many of these are typically approved? Please give details for the past three years? Does the legislature take a more active role in the budget process now than it did 10 years ago? If so, why?*

Broadly speaking, the legislature does enact the Government's proposals. There are generally a number of amendments to any Finance Bill, and these are often exclusively those put forward by the Government. There is little evidence to suggest that the role of the legislature has changed much in this respect over the last 10 years. However, there is evidence of an increase in recent years in the number of pages added to the Finance Bill between publication and Royal Assent (which reflects amendments). For example, in 1992 the length of the Finance Bill increased by 20 pages (from 156 to 176) between publication and Royal Assent. In 1996, the corresponding figure was 55 (from 408 to 463).

2.3 *Does one budget or appropriation bill cover the government as a whole, or are there a number of budget bills, for example based on individual ministries or categories of expenditures?*

There is generally only a single Finance Bill covering the Government's tax proposals following any given Budget (though there may be more than one Budget per year or per Parliamentary session, for example, in an Election year).

There is a single Appropriation Act covering Main Estimates and opportunities for further Consolidated Fund Acts for supplementary provision, increases or significant switches in spending, during the course of the year.

2.4 *What are the key steps taken by the legislature in considering the budget? What are the respective roles of a budget or appropriations committee and the sectoral committees, if applicable? Do heads of government ministries and agencies typically testify at committee meetings? Are committee meetings typically open to the public?*

The Government's Budget proposals are generally subject to 4 or 5 days discussion in the House of Commons, immediately following their announcement. The Treasury Select Committee takes evidence from invited experts, Treasury officials and the Chancellor, and publishes a scrutiny report on the Budget prior to discussion of the Finance Bill in Parliament. The hearings are open and often televised. Immediately following the publication of the Finance Bill, there is further general discussion for a day (during the Second Reading of the Bill), before detailed scrutiny of the individual clauses take place in Committee of the Whole House (2-3 days) and Standing Committee (around 12 days, spread over 6 weeks). Finally, the Bill is discussed for a further day or two (during Report Stage and Third reading), before being discussed for one day in the House of Lords.

All of these discussions are open to public observation (but not participation), and no evidence is taken directly from outside parties.

2.5 *What resources (eg staff) are available to the legislature for reviewing the budget?*

The Treasury Select Committee employs about half a dozen staff. The libraries of both Houses employ a total of about a dozen staff.

2.6 *Are there any arrangements in place for the legislature to establish aggregate expenditure ceilings before beginning debate on individual expenditures items? If so, please describe.*

No.

2.7 *What information, if any, is presented to the legislature with the budget proposal on programme outputs or outcomes? How is this information used by the legislature?*

From 1993 to 1996, spending plans for the three financial years starting the following April were announced alongside tax changes in a November Budget. The new spending plans were presented in the Budget documentation at the broad aggregate level of departmental spending programme, and would be set alongside updated projections of spending for the current year. Much more detailed analyses of spending, historical and planned, were published in Public Expenditure Statistical Analyses (PESA) and in departmental reports the following March.

No new spending plans have been announced in the past year - the Government is conducting a Comprehensive Spending Review - but updated numbers for spending by department for 1997-98 and 1998-99 were published in the March Budget, and PESA and departmental reports appeared with the usual analyses in early April.

All this information is made available largely for information and discussion. What parliament has to vote on and approve are the detailed Estimates for the year ahead, published at the same time as departmental reports and PESA.

2.8 *What share of total budget appropriations are annually voted, as opposed to permanent appropriations for programmes authorised in separate legislation (such as entitlement programs)?*

Supply expenditures are voted annually by Parliament. These account for around 90 per cent of spending by government departments. Standing services - payments which Parliament has decided, once and for all, by statute - include UK gross contributions to the EU budget and payments (where necessary) to the National Loans Fund to cover the cost of servicing the National Debt.

2.9 *Are supplementary budget bills typically enacted during the course of a fiscal year? If so, what are the key steps in this process? How many supplementary bills have there been in each of the past three years?*

There is typically only one Budget a year, though there were two Budgets in FY 1997-98, in July and in March. But there are usually presented to Parliament three sets of Supplementary Estimates, covering expenditure not covered in the original Estimates which the Chief Secretary to the Treasury has agreed to be necessary. When the spending plans are first announced, they include an unallocated Reserve for contingencies; the Supplementary Estimates generally involve allocations from this Revenue. Supply expenditure is typically subject to three separate Supplementary Estimate rounds at which provision may be increased or switched between departments or programmes in a significant manner. These are voted on by the House of Commons and may occasionally, at the initiative of select committees covering individual departments, be debated, but are not in practice overturned.

3. Fiscal Relations with Lower Levels of Government

3.1 *Are there any formal mechanisms in place for consultation with lower levels of government for establishing a national fiscal strategy? If so, what are they?*

No.

3.2 *Does the national government have any role in reviewing or approving the budgets of lower levels of government? If so, what are the key steps in this process?*

Central government has powers to “cap” a local authority's budget if that budget is either absolutely excessive, or has increased excessively. In recent years, central government has “pre- announced” details for each authority of the level of budget that would be likely to be judged excessive.

The steps in the process are then:

- local authority sets budget; if that is in excess of the pre-announced cap, then
- the Secretary of State for the Environment may “designate” the authority, indicating he is considering capping its budget;
- the authority may then make its case;
- the Secretary of State then decides whether to cap; if he decides to do so then
- an order is laid before the House of Commons;
- if the House votes in favour, the authority is capped;
- the authority must then reduce its budget and issue new, lower, council tax bills to its taxpayers.

The Government said in its manifesto that “crude and universal capping should go” but that “we will retain reserve powers to control excessive council tax rises”. The Government's local government finance review is considering the mechanism for this and will report shortly.

3.3 *Does the national government impose any restrictions on the borrowing activity of lower levels of government? If so, what types of restrictions?*

Yes. Borrowing can only be for capital investment; that borrowing must be authorised by a “credit approval” from a central government department. Credit approvals score against the issuing department's budget. Rules govern how quickly local authorities must make provision to pay off their debt.

3.4 *If lower levels of government experience financial difficulty, does the national government have any role in assisting them? If so, describe this role and provide recent examples.*

Subject to capping local authorities can always raise money through their council tax, so the situation does not tend to arise. If constrained within caps, a local authority will generally need to find savings to balance its books. More widely, under the “best value” initiative, the Government is establishing a framework to improve local authority performance and service delivery. The “best value” framework will underpin a duty on authorities to secure economic, efficient and effective services. The Government is committed to providing for external intervention in the worst cases of failure by local authorities.

4. Managerial Flexibility

4.1 *How many appropriation lines are voted on by the legislature in the annual budget bill? At what level of detail does the legislature approve budget appropriations? Are these separate appropriations for salaries, office accommodation, travel expenses and other items of spending? Or are they all consolidated into one appropriation for each programme?*

The Supply Estimates are the means by which the Government obtains Parliamentary authority for their expenditure. This year's Main Estimate volume was split into 18 Classes, each Class generally corresponding to one department. Each Class is in turn split into two or more Votes, each Vote generally corresponding to a major programme. The Votes are in turn divided into sections corresponding to significant elements of the programme, with each section showing expenditure under the headings:- running costs (includes salaries, accommodation etc), other current, capital and current and capital grants and transfers.

4.2 *Can appropriations be moved from one item of spending to another within a programme? Can appropriations be moved from one programme to another? If so, who authorises such reallocations and what regulations apply to such reallocations?*

Departments may vary the allocation within sections, with the exception of transfers into running costs. However, departments must have either Treasury or, in some cases, Parliamentary authority to vary the allocation between sections or Votes.

4.3 *Can managers decide to contract out services currently performed in-house or supplied by a central agency if they believe this to be more efficient?*

Yes.

4.4 *If managers do not incur costs up to the level of the appropriation, does the unused portion carry-over to the next year? If so, is the full amount carried-over or only a certain percentage of it?*

“End year Flexibility” enables departments to carry over all of their running costs underspend and part of their capital underspend.

4.5 *Are there any arrangements in place where managers may borrow against future appropriations. If so, please describe applicable maximums and other conditions.*

There are no general arrangements for bringing forward expenditure.

4.6 *Are there centralised quantitative restrictions on the number of staff that can be employed in government organisations? What flexibility do managers have in hiring and firing staff? If different rules apply to different categories of staff, please specify.*

Centralised restrictions on the number of staff employed by a department were replaced by departmental running costs limits in 1985. These are spending limits which include the staff costs of civil servants. Staff costs account for around 70% of running costs and so these limits effectively restrict departmental staff numbers. Departments also have to present, for Parliamentary scrutiny, staff plans and outturn.

5. Accrual Accounting and Budgeting

5.1 What basis of accounting does the government use (cash, accrual)? If modified cash-basis or modified accrual-basis, please describe major deviations from full cash-basis or full accrual-basis. Do some types of government organisations (eg, agencies, enterprises) use accrual-basis whereas others do not? If so, please describe. Are certain transactions (eg, interest on government debt, civil service pension plans) treated on accrual-basis whereas other transactions are not? If so, please describe.

The UK public finances are presented in two ways: on a national accounts basis and on a cash basis. The national accounts record most transactions (although not corporation tax) on an accruals basis, while the public sector borrowing requirement (PSBR) is almost entirely a cash concept. Public expenditure is at present planned, controlled and accounted for on a cash basis.

5.2 *Has the government's basis of accounting moved from cash-basis to accrual-basis in the recent past? If so, please describe. Does the government have plans to move to accrual-basis in the near future? If so, please describe.*

In the 1980s, the main focus of fiscal policy was the PSBR. More emphasis is now placed on national accounts accruals concepts, particularly the current balance (the concept relevant to the golden rule) and the general government financial deficit (the definition used in the Stability Pact). With the implementation next year of Resource Accounting and Budgeting, public expenditure planning will move from a cash to an accruals basis.

If the government uses or plans to use accrual-basis, please answer questions 5.3 - 5.7 accordingly. Otherwise, please go to question 6.

5.3 *Are consolidated whole-of-government financial statements prepared on accrual-basis? Or are only departmental or agency-level financial statements prepared on accrual-basis? If so, why?*

There are plans to construct whole of government accounts on an accruals basis.

5.4 *What is the frequency of financial reporting on accrual-basis? Is there more frequent reporting on cash-basis? Which of these reports is independently audited?*

The national accounts are published quarterly. The cash PSBR is published monthly. Financial year outturns for the central government borrowing requirement (CGBR) are audited by the National Audit Office.

5.5 *How are "heritage assets," such as museums and national parks, treated for reporting purposes?*

The existing national accounts treats spending on buildings and land as capital; ESA95 will also treat spending on (for example) works of art as capital. RAB treats capital-type expenditure on heritage assets as capital.

5.6 *How are government accounting principles, standards and definitions determined? Does the government establish these unilaterally or does it rely on private sector accounting policy boards?*

The national accounts are defined on the basis of internationally agreed conventions (which will be changed in the summer with the introduction of ESA95). The definition of the PSBR is the joint responsibility of

the Treasury and the Office for National Statistics. As far as is practical, Resource Accounts will conform with GAAP (Generally Accepted Accounting Practice in the United Kingdom).

5.7 *Is the budget presented to the legislature on accrual-basis or cash-basis, or both. Does the legislature approve the budget in accrual terms or cash terms, or both. If applicable, is there a reconciliation between the different basis of accounting used in the budget and the financial statement?*

Both.

6. Capital Budgeting

6.1 *Are appropriations divided between separate capital and operating budgets? Or are capital expenditures and operating expenditures consolidated in a single budget?*

Appropriations approved by Parliament (Main Estimates) cover both capital and current expenditure. However, individual Estimates contain separately identified sums for capital and current within the total.

6.2 *Has there been a change from having a capital budget to not having a capital budget, or vice versa, within the last 30 years? If so, why? Are there plans to introduce or abandon a capital budget in the near future? If so, why?*

There have not been separate capital budgets and current budgets in the last 30 years. Nor does the government plan to introduce a capital budget which is wholly discrete from current expenditure. In the year 2000 it is planned to move to accruals accounting (resource accounting and budgeting), which involves different treatment of current and capital expenditure. In the meantime, a consequence of the adoption of the two fiscal rules described in Section 1.2 is that the distinction between capital and current expenditure will be made clearer in planning expenditure for the medium term.

If the government has a separate capital budget, please answer questions 6.3 - 6.6 accordingly. Otherwise, please go directly to question 6.7.

6.3 *What is the definition of capital used to determine which expenditures are included in the capital budget? Does "capital" include all types of physical capital purchased by the government (eg, infrastructure, buildings, motor vehicles, military weapons systems)? Does it include transfers to lower levels of government to acquire capital? Does it include expenditures for non-physical capital (eg, research and development, education, training)? Who determines the definition of capital and how?*

The definition of capital used for planning and control of public expenditure is drawn from internationally recognised national accounts principles, at present based on ESA 79, and from later this year ESA 95.

6.4 *Does the operating budget include any charges for the use of capital (eg, depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

Capital charges will be introduced as part of the move to resource accounting and budgeting. At present, those parts of the public sector which are trading activities (public corporations) are charged for the use of capital, and central government departments are charged for their use of property. This approach will be extended to [all capital in central government] under RAB. In presenting the public accounts, both debt interest payments and depreciation are counted as current spending.

6.5 *Are the capital and operating budgets financed differently? If so, how?*

Not applicable.

6.6 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

Parliament votes Estimates one year at a time. It is the responsibility of departments to manage multi-year projects within successive annual budgets. However successive government have planned expenditure for 3 years ahead, providing some medium-term financial stability.

Please answer questions 6.7 - 6.12 if capital and operating expenditure are contained in a single consolidated budget.

6.7 *Are capital expenditures a separate category within the budget? Are they a category within the major divisions of the budget (such as ministries and agencies)? Or are they treated otherwise? Does this differ by type of capital expenditure (eg, purchase of capital used by the government, grants to lower levels of government, physical and non-physical capital)?*

Capital expenditure does not form a separate discrete category within the overall budget. Capital expenditure is identified within the departmental and agency programmes, and within the more detailed sub heads within each department's budget. Direct expenditure by the department or agency is identified separately from grants and transfers to others. Physical and non-physical capital are not generally distinguished.

6.8 *Does the main budget document contain a separate chapter or set of tables summarising capital expenditures, or relating more generally to asset management?*

The Financial Statement and Budget Report contains information summarising capital expenditure, asset acquisition and asset disposal. In addition, detailed information is provided on the financial flows of all parts of the public sector, including the capital account.

6.9 *Are there any separate (long-term) plans for capital expenditure (eg, infrastructure development) that are used for reference in the annual budget process? Please give examples.*

[Departmental reports, which provide supplementary information to the Main Estimates considered and approved by Parliament, contain information on long-term capital expenditure plans.]

6.10 *Are some capital expenditures financed differently from expenditures in general (eg, by special earmarked taxes)? Please give examples.*

Not specifically, although the Government's adoption of the golden rule will mean that, over the economic cycle, current spending is financed only by current receipts, while net capital spending may be financed by borrowing as well as current receipts.

6.11 *Does the operating budget include any charges for the use of capital (eg, depreciation, payment of interest, return on capital employed)? If so, on what basis are the charges determined and how are they paid?*

See Question 6.4.

6.12 *Does the legislature provide funds up-front in the budget for the full cost of a multi-year capital project or does it provide partial funding incrementally year by year until the project is completed? What is the rationale for the technique applied?*

See Question 6.6.

UNITED STATES

1. Fiscal Performance

1.1 In FY 1997, the Federal deficit was \$22 billion -- down from a peak of \$290 billion in FY 1992, just before the current Administration, and \$107 billion in FY 1996. In FY 1998, the deficit is estimated to be just under \$10 billion. As a percent of GDP, the deficit fell from a recent peak of 4.7 percent in 1992, to 1.4 percent in 1996, 0.3 percent in 1997, and a projected 0.1 percent in 1998.

1.2 The Administration's medium-term fiscal policy is to achieve a unified budget surplus by FY 1999, and not to dissipate that surplus through increased spending or tax reductions while debate continues on how to resolve the "generational" deficit in social security and Medicare resulting from ongoing and projected demographic changes. The unified budget surplus is projected to increase gradually from 0.1 percent of GDP in FY 1999 to 0.8 percent of GDP in FY 2003. Debt held by the public has been declining from 50.2 percent of GDP in 1993 to 47.3 percent in 1997, and could reach 35.3 percent if the surpluses are sustained until 2003.

2. Role of the Legislature

2.1 There are no specific restrictions on Congress changing the President's budget, which is a proposal. However, revenue and spending are controlled by federal laws, which must be passed by Congress and either approved by the President or passed a second time by Congress, overriding the President's disapproval (veto).

2.2 Congress does not vote on the President's budget itself, so it does not amend the budget as such. The extent to which revenue and spending laws reflect the President's budget proposals varies for many reasons, including the strength of the President's party.

2.3 The budget consists of many different laws. Traditionally, thirteen annual appropriations bills provide funds for discretionary programs, which cover about one-third of total spending. A typical bill covers the Departments of Commerce, Justice, and State. Most spending in dollar terms results from permanent laws (see answer 2.8).

2.4 First, Congress prepares and adopts a budget resolution to set aggregate levels of spending and revenue (see answer 2.6). This process is overseen by the House and Senate Budget Committees. Next, the House and Senate Appropriations Committees allocate amounts provided to them in the budget resolution among their respective subcommittees -- defence, agriculture, housing, transportation, etc. Appropriations bills are initiated in the House. After each appropriation bill is approved by the whole committee and voted on by the whole House, usually with amendments to the original version, it is forwarded to the Senate, where a similar review follows. In case of disagreement between the House and the Senate, a conference committee (consisting of Members of both bodies) meets to resolve the differences. The conference committee reports a revised bill, which is returned to both the House and the Senate for a vote. When both bodies have approved the bill, it is transmitted to the President.

There are many authorising committees whose role generally is to determine *what* is to be done, rather than *how much* is to be spent. However, some programs with significant spending -- e.g., social security benefits - - are controlled through authorising legislation. The House Ways and Means Committee and the Senate Finance Committee have jurisdiction over tax laws.

Committees hold hearings at which Executive branch officials, as well as experts and representatives of various groups from outside the federal government, testify. Work sessions at which appropriations bills are drafted may or may not be open to the public depending on the individual committee's policy.

2.5 Each of the committees has its own staff and funds allocated to it from funds appropriated to the Legislative Branch. The legislature has a special agency, the Congressional Budget Office, to provide technical assistance.

2.6 Through the process of adopting a budget resolution, Congress agrees on levels of revenue and spending, in total and by functional category -- defence, agriculture, housing, transportation, etc.

2.7 An extensive amount of performance information is presented with the agency budget proposals, including output and outcome goals. Agencies are required by law to set performance goals for all programs, and to link this performance to the amounts requested in the budget for these programs. The law requiring this information became effective with the budget for fiscal year 1999. While it is not known yet how the new information will be used, in past years the legislature has considered performance information when making decisions on agencies' budget requests. Most of previously available information addressed incremental changes in performance resulting from incremental changes in funding levels; the new law requires performance information on base-level program activity as well.

2.8 About one-third of total spending is controlled through annual appropriations acts and two-thirds is authorised in permanent laws. Entitlement and other mandatory spending programs controlled by permanent laws accounts for about one-half of total spending. Net interest payments, which also are authorised in permanent laws, account for about 15 percent of total spending.

2.9 Supplemental appropriations bills are normally enacted in the spring or early summer of each year. In 1995, two bills were enacted: one in April and the second in July. In 1996, one bill was enacted in April. In 1997, one bill was enacted in June.

3. Fiscal Relations With Lower Levels of Government

3.1 There is no formal mechanism for establishing a national fiscal strategy, because the independent nature of U.S. state and local governments does not lend itself to one (see answer 3.2).

3.2 The federal government has no role in reviewing or approving the budgets of state and local governments. The U.S. Constitution assigns the federal government certain functions -- mainly national defence and the conduct of foreign affairs -- and reserves all others to the states. Much of each state's responsibilities are divided among the local governments. The state and local governments -- independently from the federal government -- levy taxes, determine how much to borrow, and budget spending for most domestic needs.

3.3 The federal government does not impose any restrictions on the borrowing activities of State or local governments. It subsidises their borrowing by exempting interest on their debt securities from federal income taxes.

3.4 The federal government has no formal role in assisting state or local governments in financial difficulty, although it has provided such assistance in specific cases. The federal government also spends about 16 percent of its budget for grants to state and local governments to support various programs.

4. Managerial Flexibility

4.1 It is difficult to say how many “appropriation lines” are voted on in the annual appropriation process without further definition. The basic unit in the budget is an account, and there are about 1,500 appropriation accounts. There are thirteen appropriations bills containing many paragraphs, each of which constitutes an appropriation. A paragraph may specify more than one amount for particular purposes. In addition, the committee reports accompanying appropriations acts may specify the level of funding for programs, projects, and activities in great detail. Any of these levels of detail might be considered “appropriations lines.”

4.2 Appropriations are mostly program-based, not based on objects of expenditure. Although appropriations for “salaries and expenses” (salaries, office accommodations, travel expenses, etc.) are common, they usually are not broken down by object of expenditure, and they are usually provided to a bureau that is responsible for a group of related programs.

4.3 Funds must be used for the purpose for which they were appropriated unless there is explicit authority in law to transfer appropriations for another purpose. Where an amount appropriated provides funding for more than one program, the agency may “reprogram” funds. However, permission from the appropriations subcommittees or OMB may be required. Some programs have specific limitations on administrative costs.

4.4 Managers may convert to or from in-house, intra-governmental, or private sector contract provision of services when the conversion can be justified on the basis of a cost comparison or is otherwise administratively authorized.

4.5 The amounts provided in appropriations acts are available for obligation only for one fiscal year unless explicit language makes them available for multiple or unlimited years. Unobligated funds for one-year money cannot be carried over to the next year. If less than the full amount of an appropriation for multiple or unlimited years is obligated in the first year, all of the unobligated amount may be carried-over. Five benefit programs that require annual appropriations are authorized to borrow from the next year’s appropriation to incur obligations in the last quarter of the fiscal year if necessary to pay benefits in that quarter.

4.6 A law places ceilings from FY 1994 through FY 1999 on the number of civilian full-time equivalent (FTE) employees in the executive branch. The FY 1994 ceiling of 2.084 million FTEs is lowered 40,000 FTEs per year until FY 1999, when the ceiling is 1.882 million FTEs. The FY 1997 actual of 1.835 million FTEs is already lower than the FY 1999 ceiling.

As a general rule, the policy is to provide executive branch agencies with flexibility to hire the right number of staff to meet program requirements within available funding levels. Although not the norm, agency or sub-agency employment targets may be set when that is determined to be the most efficient or effective method of achieving program or management goals.

The merit-based civil service system, established in law and regulation, generally controls the highly decentralized hiring and firing process. Position classification systems control pay levels and progression within jobs.

5 Accrual Accounting And Budgeting

5.1 Budgetary accounting: The budget is an obligations- or commitments-based budget. It records the budget authority enacted by the Congress, obligations against that authority, and outlays to liquidate the obligations. The basis of accounting for the outlays and receipts of all organizations is cash (or cash equivalent) with two major exceptions: (a) interest on public issues of Treasury debt, which is recorded as it accrues; and (b) the cost of direct loans and loan guarantees, which is recorded at the time of loan disbursement as the net present value of the cash outlays less cash inflows to the government resulting from the direct loan or loan guarantee.

Financial accounting: The basis of accounting for all organizations is full accrual with two major exceptions: (a) military weapons systems, heritage assets (unless multi-use), and stewardship land are expensed at acquisition rather than capitalized; and (b) tax revenue is cash collections (less refunds) adjusted for changes in accounts receivable, allowance for uncollectible amounts, and accounts payable for refunds, rather than being based on the underlying events.

5.2 Budgetary accounting: The accrual basis for direct loans and loan guarantees began in FY 1992 in order to record the full cost as an outlay up front. The government does not plan to move to the accrual basis for other budgetary transactions. Reforms are under study to better align costs with programs without changing the basis of budgetary accounting.

Financial accounting: Most agencies did not prepare financial statements until recently. "Government corporations" followed private sector generally accepted accounting principles, which are on an accrual basis. The prototype consolidated whole-of-government financial statements were on an accrual basis for expense and a cash basis for most revenue.

5.3 Financial accounting. All financial statements are on the financial accounting basis described in answer 5.2.

5.4 Financial accounting. Financial statements have been prepared annually on an accrual basis and independently audited since FY 1996 for all departments and major agencies. Financial statements for the government as a whole will be prepared annually and audited on the same basis starting with FY 1997. There are no corresponding financial statements on the cash basis. (Budgetary reports are monthly as well as annual and are not audited.)

5.5 Financial accounting. Heritage assets, such as museums, are expensed at the time of acquisition, improvement, reconstruction, or renovation, rather than being capitalized. However, if their predominant use is general government operations, the cost is capitalized and depreciated. Stewardship land, such as used for national parks, is expensed at acquisition rather than capitalized. Significant operating structures on stewardship land are capitalized and depreciated.

5.6 Financial accounting. The Federal Accounting Standards Advisory Board recommends standards to the Director of the Office of Management and Budget (OMB), Secretary of the Treasury, and Comptroller General, which are effective when approved unanimously and published by OMB. The Board consists of representatives of these three agencies, the Congressional Budget Office, two other agencies, and three non-Federal members. OMB prescribes the form and content of financial statements. Standards and reporting requirements are related to private sector principles in many ways but differ to take account of the different resources and responsibilities of the government and the different uses of the information.

5.7 **Budgetary accounting and reconciliation.** The President and Congress use the same basis of budgetary accounting, which is described above. The consolidated whole-of-government financial statements include a limited reconciliation between the budget deficit (budgetary accounting basis) and the change in net position (financial accounting basis).

6. Capital Budgeting

6.1 Appropriations are not divided between separate capital and operating budgets. Capital and operating expenditures are included in a single, unified budget.

6.2 The Federal government has never had a capital budget, and there are no plans to introduce a capital budget. There is a Presidential Commission to Study Capital Budgeting that is to report to the President in December 1998.

[Note: Questions 6.3-6.6 are only for countries that have a separate capital budget.]

6.7 Capital expenditures are not a separate category within the budget. However, the budget is divided into about 1,500 separate budget accounts, and most physical capital is financed through accounts that consist largely or entirely of capital expenditures.

6.8 The main budget volume does not usually contain a comprehensive table or chapter on capital spending, but it usually has one or more chapters focusing on those investments that are a priority for the Administration. A section of a subsidiary volume, *Analytical Perspectives*, provides comprehensive information on investment spending using a definition of investment that has not changed in many years. The *Historical Tables* volume has tables on investment spending going back to 1962 or earlier.

6.9 Some agencies or bureaux have long-term capital plans that underlie their annual budget proposals. There is no plan for government wide capital expenditures, because of the disparate and incommensurate objectives of different agencies.

6.10 Yes. The primary examples of earmarked financing for capital expenditures are the use of a gasoline tax to finance grants to States for highway construction and a tax on airline tickets to finance airport construction and some operating and capital expenditures for the air traffic control system.

6.11 No, except for the rental charges on office buildings owned by the General Services Administration.

6.12 The longstanding policy, recently re-emphasised and reinforced by the current Administration, is to finance capital projects with full up-front funding of budget authority. The main purpose is to help ensure that all costs and benefits are fully taken into account at the time decisions are made to provide resources. It also leads to trade-offs within the budget year with spending for other capital assets and with spending for purposes other than capital assets, and it allows for more efficient work planning and management of the capital project. This policy is almost always followed for defence capital (e.g., ships, aircraft, and tanks) but not as consistently for non-defence capital expenditures.

NOTES

¹ S'il n'y a pas de doute quant à la nature du budget, il faut cependant préciser qu'il s'agit d'une loi purement formelle qui obéit à quelques règles spécifiques : elle doit être "revotée" chaque année, elle n'est pas créatrice de droits et son adoption est simplifiée en ce qui concerne la procédure (pas de passage au Conseil d'Etat).

² Voir pour plus de détail la réponse à la question 6.11.

³ In the case of the local governments the balance projection is based on an estimate, to be finalised on the basis of the completion of the local governmental financial statements.

⁴ The performance of the state duties and the regulatory tasks and obligations relating to their funding are specified in separate sectoral and branch laws.

⁵ The overall amount of amendments was about 0,82 billions escudos. The central government deficit before parliamentary approval of the budget was 487,2 billions escudos.

⁶ The overall amount of amendments was about 8,2 billions escudos. The central government deficit before parliamentary approval of the budget was 511,3 billions escudos.

⁷ The overall amount of amendments was about 8,9 billions escudos. The central government deficit before parliamentary approval of the budget was 692,4 billions escudos.

⁸ Which are the Autonomous Regions of Madeira and Azores Islands.

⁹ The "*Fundo de Equilíbrio Financeiro*", possibly translated as Fund for Financial Balance, is a fund created in 1979 connected with the law for local finances. The total amount of the FEF is contemplated in the budget bill (and thus voted by the Parliament) and it's transferred to the municipalities monthly according to a duodecimal system.

¹⁰ It should be beard in mind that the regional governments are only those of the autonomous regions. Nevertheless, at the present time a broad public discussion about the extension of the regional governments to the continental territory, even if with a lower degree of autonomy, is taking place.

¹¹ Which are situations backgrounded with an adequate and accurate juridical frame.

¹² Or, following a more precise and formal definition, organic, functional and economic classifications.

¹³ This is generally called a "*direcção-geral*", which is a governmental agency with the particularity of not having financial autonomy.

¹⁴ Please, do revise this terminology under the item 4.1.

¹⁵ The direct administration is understood as the whole of agencies of the central government (without financial autonomy).

¹⁶ Voted by the Parliament.

¹⁷ There are some 220 000 employees in the central government sector. Approximately 98 per cent of these are employed by the government agencies; the remaining 2 per cent by the Government Offices.