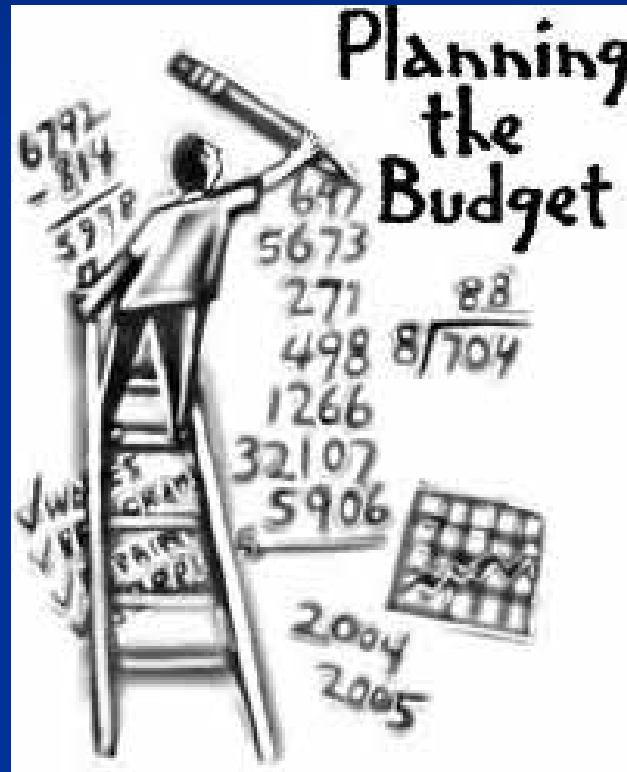


PEMPAL Plenary Meeting of Budget Community of Practice (BCOP)

Program budgeting - the EU approach: from theory to practice



Grzegorz Orawiec

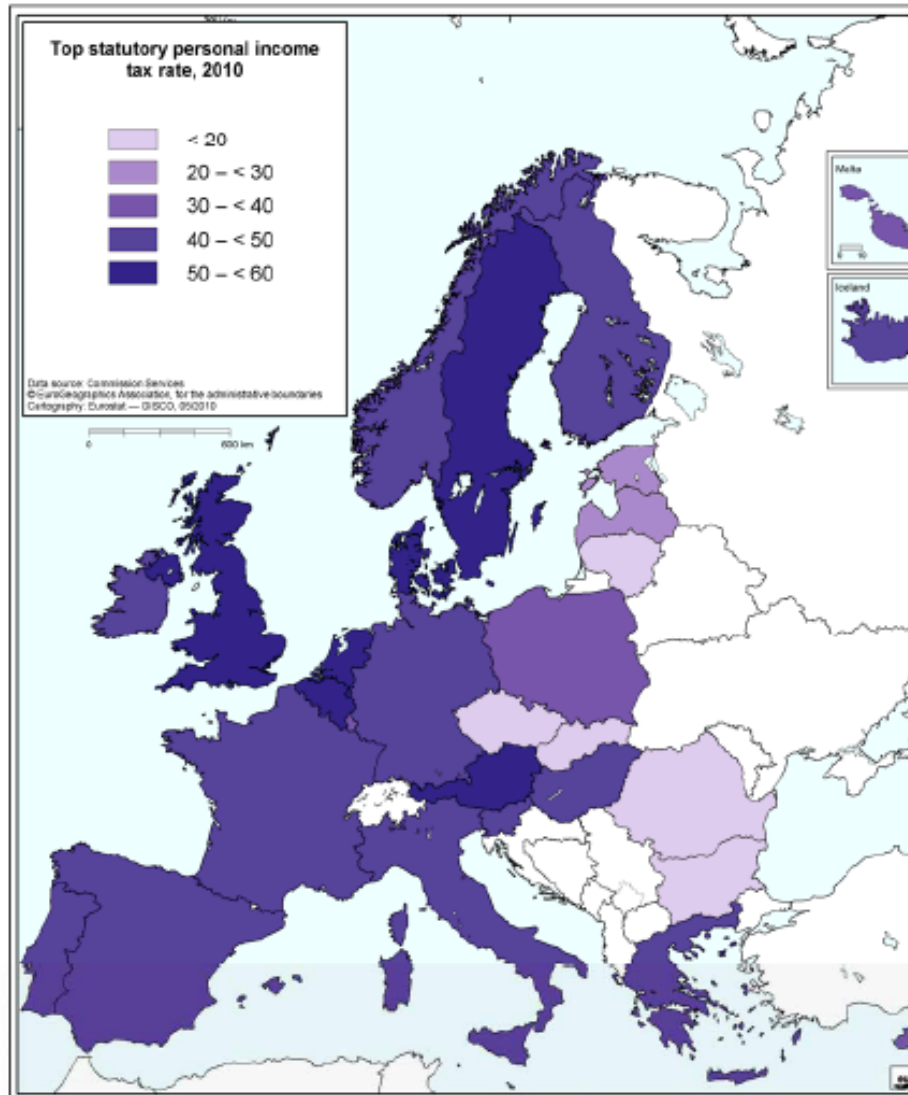
Slovenia

27-29 March 2012

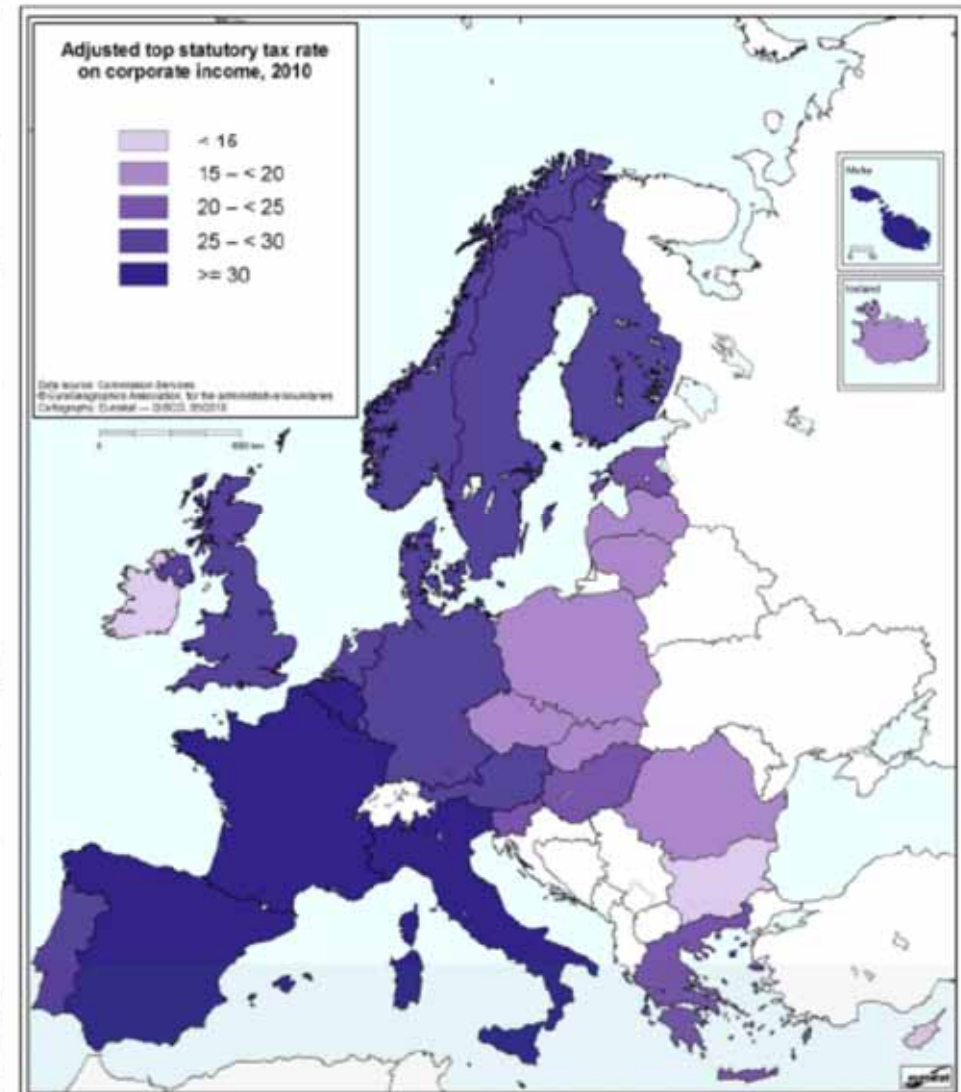


Program budgeting like taxes ... ☺

Map I-2.1: Distribution of top personal tax rates



Map I-2.2: Distribution of corporate tax rates



Questions

- What are the **main elements** that have proven to be most successfully in planning and implementation of budgetary policies from EU point of view ?
- How the desirable features are applied in the “**best pupils**” cases ?

Main elements = Desirable features

- A rules based approach
- Appropriate organization of the budget process
- Transparent and effective control and enforcement mechanisms
- Strong political commitment through effective communication
- Adaptability to new challenges

“Best pupils”: The main puzzles for improving public finance

- Fiscal rules
- Consolidation of fiscal sector
- Multi-annual planning
- Independent public institutions
- Performance-based budgeting

http://ec.europa.eu/economy_finance



Program budgeting - the EU approach:

Purposes of the sound public finance:

■ The Budget as a Contract

- a legal promise to provide funds to institutions for defined purposes
- taxes ↔ services)

■ The Budget as a Management Tool

- to achieve administrative efficiency & economy

■ The Budget as a Financial Control Mechanism

- Strong control over public expenditures & reduction of the administrative discretion

■ The Budget as a Major Policy Tool

- How to spend public resources (always less than needed)

■ The Budget as a Communication Mechanism

- Informing citizens, officials, potential investors about budgetary issues, trends and choices

EU & macroeconomic stabilization policy

- **Fiscal policy:** government spending and taxes.
- The framework for fiscal policies of EU Member States is intended to monitor and supervise the **deficits** and **debts** of each MS - the aim of **sound public finances** in the context of **deeper economic integration** (EC).
- The aim is to achieve **balanced budgetary positions** in the medium term (3-5 years):
 - **Fiscal rules:** The size of the deficit (max. **3%** of GDP), public debt (max. **60%**)
 - **Tax policy:** The taxes – variety of rates
 - **Government spending** – different strategies e.g. **PBB**
- **Monetary policy** controls the value of currency. It is concerned with the amount of **money** in circulation (**inflation**).
 - **Interest rates** - set by NCB / ECB
 - **Reserve requirements**
 - **EU:** common monetary policy ^ national but coordinated fiscal policy
 - (e.g. Poland – Constitution – Art. 216: 3/5 GDP)

EU – basic legal regulations (1/2)

Legal base for economic EU policy:

Articles 121 and **Articles 126** of the **Treaty on the Functioning of the European Union**
(the basis for the stability and convergence programmes & the Excessive Deficit Procedure)

Stability and Growth Pact (SGP) - the key instrument for fiscal policy coordination:

“national budgetary rules should be complementary to the member States’ commitments under the Stability and Growth Pact”

- **Council Regulation (EC) no 1466/97** on the strengthening of the surveillance of budgetary positions and the coordination of economic policies (referred to as **preventive part**)
- **Council Regulation (EC) No 1467/97 of 7 July 1997** on speeding up and clarifying the implementation of the excessive deficit procedure (referred to as **corrective part**)
- These Regulations were amended in 2005 by **Regulation (EC) No 1055/2005** and **Regulation (EC) No 1056/2005** and complemented by the **Council Report of 20 March 2005** on ‘Improving the implementation of the Stability and Growth Pact’

EU – basic legal regulations (2/2)

Stability and Growth Pact (SGP) – cont:

- Protocol (No 12) on the excessive deficit procedure annexed to the Treaty (the details of the excessive deficit procedure referred to in Article 126)
- Council Regulation (EC) 479/2009 on the application of the Protocol on the EDP (e.g. rules of reporting – period $\langle n ; n-4 \rangle$, quality of data – used methods)
- Code of conduct - "Specifications on the implementation of the Stability and Growth Pact and guidelines on the format and content of stability and convergence programmes", endorsed by the ECOFIN Council on 7 September 2010 (e.g. Medium term budgetary objective, correction of an excessive deficit)
- October 2006 ECOFIN Council conclusions on the quality of public finances
- October 2007 ECOFIN Council conclusions on improving the effectiveness of the Stability and Growth Pact (e.g. reform of public finance, administration, financial markets)

EU – new legislative package

- ”Hot” discussion in EP on **legislative package** on: **EU economic governance** and **discipline of public finance of MSs**
- made up of **six pieces of legislation**:
 - new proposals deal with fiscal issues, including a wide-ranging **reform of the Stability and Growth Pact (SGP)** – better coordination of budgetary policies & effective framework for preventing macroeconomic imbalances
 - new concept of **fiscal policy-making (MTO)**
 - **debt developments** = deficit developments (penalty procedures e.g. cutting money from EU funds: Hungary & 500 million euros from CF ?)
 - **preventing and correcting macroeconomic imbalances** (EC→MS specific analysis and recommendations for E. Council + early warning → MS)
 - new set of **gradual financial sanctions for euro-area Member States** (e.g. non-interest bearing deposits which would be converted to fines – Spain ?)

- Home
- News
- The euro
- EU economic situation
- Stability and Growth Pact
 - Stability and convergence programmes
 - **All programmes and assessments**
 - Excessive deficit procedure
 - Early warning mechanism and policy advice
 - Relevant legal texts and guidelines
 - Data and methods
 - Sustainability of public finances
 - Analysing structural reforms and EU policies
 - International economic issues

Stability and Convergence programmes (or updates) and National Reform Programmes 2011 - programmes received to date*

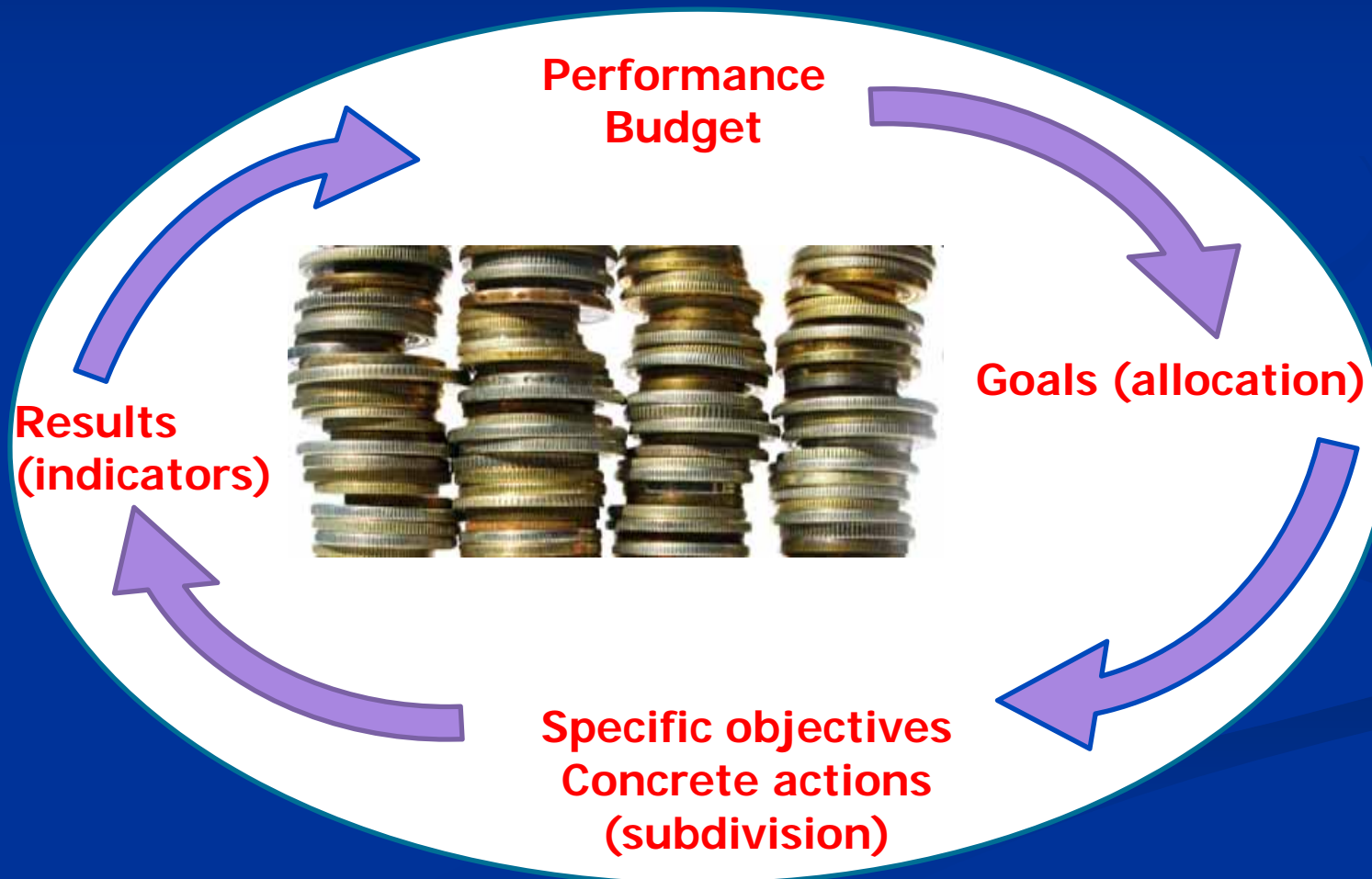
Jump directly to...

	Stability / Convergence Programme (update)	National Reform Programme	Staff Working Paper	Commission Recommendation	Council Recommendation
Belgium	15.04.2011 fr nl	15.04.2011 fr nl	07.06.2011	07.06.2011	12.07.2011
Bulgaria	15.04.2011 bg	15.04.2011 bg	07.06.2011	07.06.2011	12.07.2011
		Annex 1 bg			
		Annex 2 bg			
Czech Republic	05.05.2011 cs	29.04.2011 cs	07.06.2011	07.06.2011	12.07.2011
Denmark	09.05.2011 da	09.05.2011 da	07.06.2011	07.06.2011	12.07.2011
Germany	27.04.2011 de	07.04.2011 de	07.06.2011	07.06.2011	12.07.2011
Estonia	28.04.2011 ee	28.04.2011 ee	07.06.2011	07.06.2011	12.07.2011
		Annex ee			
Ireland	29.04.2011	29.04.2011	07.06.2011	07.06.2011	12.07.2011
Greece	10.08.2011	29.04.2011	07.06.2011	07.06.2011	12.07.2011
Spain	29.04.2011 es	29.04.2011 es	07.06.2011	07.06.2011	12.07.2011
		Annex 1 es			
		Annex 2 es			
		Annex 3 es			
France	03.05.2011 fr	03.05.2011 fr	07.06.2011	07.06.2011	12.07.2011
Italy	13.04.2011 it (1)	13.04.2011 it (1)	07.06.2011	07.06.2011	12.07.2011

Performance budget

PBB sets the goals, to which money is “connected” (allocated)

From these goals, specific objectives are delineated and funds are then subdivided among them.



Performance-based budgeting

- **Performance budgets** use goals, objectives and indicators (measured results) to explain why the money is being spent.
- The key word “**result**”
- The entire planning and budgeting framework is **result oriented**. There are objectives and activities to achieve these results.

- Performance budgeting comprises **three elements**:
 - **strategy** (different ways to achieve the final result)
 - **activity/outputs** (what will be done to achieve the final result)
 - **result** → concrete measures (indicators)

PBB – only one (**rather final**) puzzle of modern public finance

Performance-based budgeting – the legal base

- The is **no single** model of performance-based budgeting:
 - PSA (GB), VBTB (the Netherlands)
- National ↔ Regional ↔ Local level (**administrative division**)
- Countries which directly adopted foreign models later had **adjust these models** or reconstruct them completely with respect to:
 - specifics of their own public finances
 - national priorities
 - social-economical circumstances

The performance budget in Poland

- Poland currently has a **traditional budget system** that is based on organisational units and control of inputs.
- But also – Poland in the process of introducing a **new budget system**, the performance-based budgeting system

➤ The aims:

- **Improve public finance management** (rational use of resources: money → tasks)
- **More universal and competent supervision** of public funds spending (indicators),
- **Multi-year budgeting** (analysis of different scenarios)
- **Transparency and accountability** (improvement of effectiveness of public administration)

➤ **“step by step”** scenario → **2013**: national budget prepared parallel in traditional & performance-based methods



PBB in Local Self-Governments in Poland



- **Three-gradual system** of administration (16 regions, 379 counties, 2478 local municipalities)
- Increasing status of regions (**decentralization**) & More **responsibility** for local level
- **First PBB in Poland – Cracow (1994)** ↔ Rochester (USA) → 60 municipalities
- 2004 - Big chance = EU funds → strategic planning
- Local Development Strategies → Long-term Investment Plans
- PBB in LSG as **additional** planning document (annex)
- **Free choice** of local municipalities & **no sanctions** for not fulfilling the indicators (testing period)
- **External support:** ESF – 18
- PBB in LSG: intensive **social consultations** & **flexible structure** (fields, indicators)
- EU funds → intensive investments → **more restricted** public finance rules:
 - debt limits (15%), debt/revenue relation (60%)
- **Complex reform** of public finance at national & regional level

Debt / Revenue relation

Local self-government level

- Old rule = max 15%
- Principal instalment + bank interest / annual revenue
- Information since 2011 → obligation since 2014
- Operational surplus index (arithmetic mean)
- Based on budgetary data from 3 previous years
- Increasing debt possible only if:
 - surplus in current section of the budget (revenue ↔ expenditures) v revenue from sale of public (council) property
 - no matter for free sources

$$\left(\frac{R+O}{D}\right)_n \leq \frac{1}{3} \left(\frac{Db_{n-1} + Sm_{n-1} - Wb_{n-1}}{D_{n-1}} \right) + \left(\frac{Db_{n-2} + Sm_{n-2} - Wb_{n-2}}{D_{n-2}} \right) + \left(\frac{Db_{n-3} + Sm_{n-3} - Wb_{n-3}}{D_{n-3}} \right)$$

The main independent institutions in the sector of public finance in Poland

- **National fiscal entities** are defined as :
 - independent public bodies, other than the central bank, government or parliament that prepare **macroeconomic forecasts** for the budget, **monitor/audit/control fiscal performance** and/or **advise** on fiscal policy matters.
- The Supreme Chamber of Control (NIK) – state budget
- The Regional Audit Chamber (RIO) – regional & local level
- The Treasury Control Office (UKS)
- The Supervisor of Public Finance Discipline
- * **Internal Audit** (Act on Public Finance -2009)

RIO (The Regional Audit Chamber)

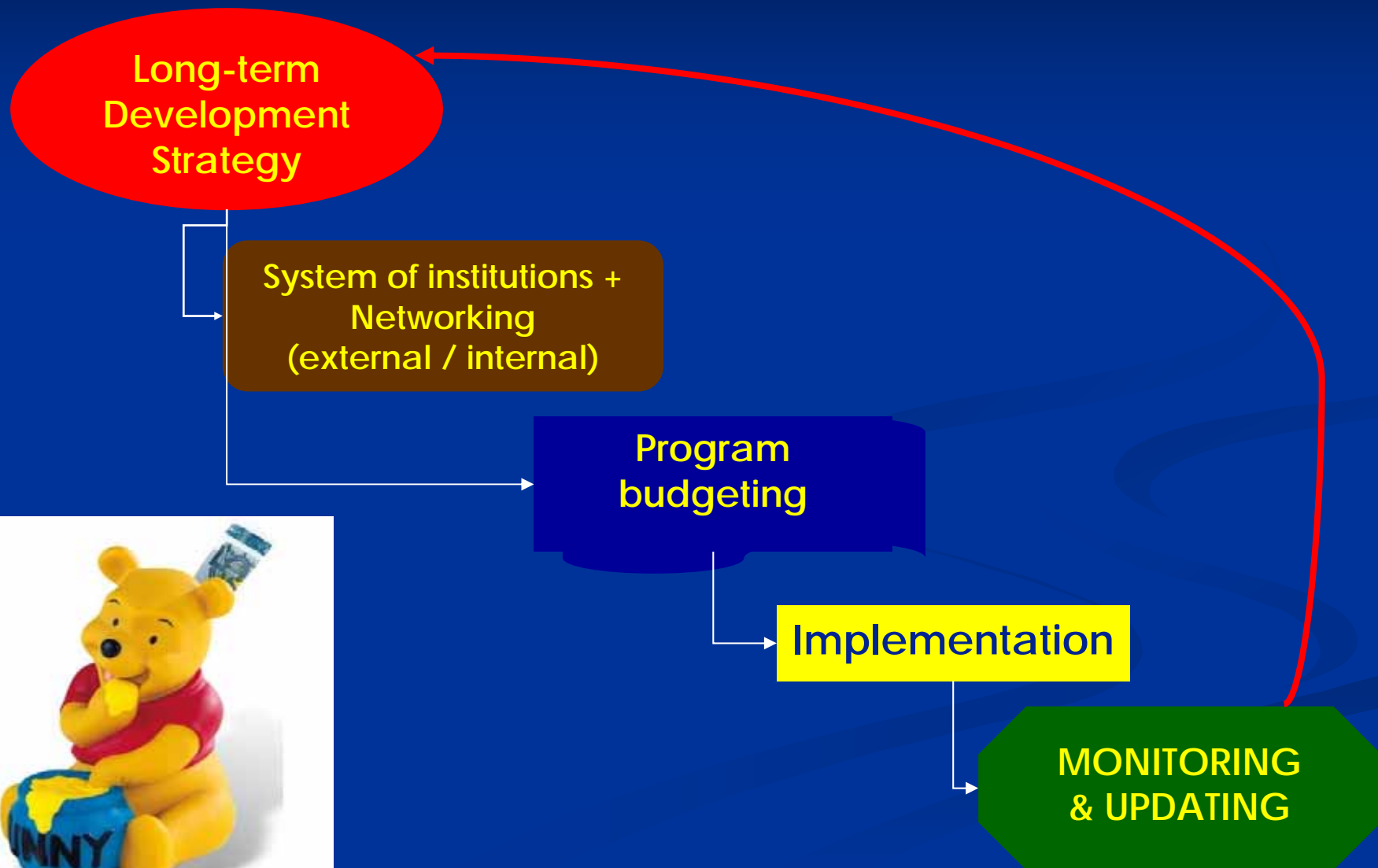
■ RIO (The Regional Audit Chamber)

- concentration on public finance management at **self-government sector** (three levels: regions / counties / local municipalities)
- directly **controlling the budgets**: e.g. economic classification, charts of accounts, fiscal rules (e.g. debt limits, investments / current spendings)

■ The scope of the control:

- the proposal of the budget
 - annual execution of the budget
 - quarterly financial report (+ Ministry of Finance)
 - conformity with law (e.g. economic classification of budget expenses & chart of accounts)
- Information & training tasks (advisory activity) e.g. **PBB**

Strategic management in the context of program budgeting

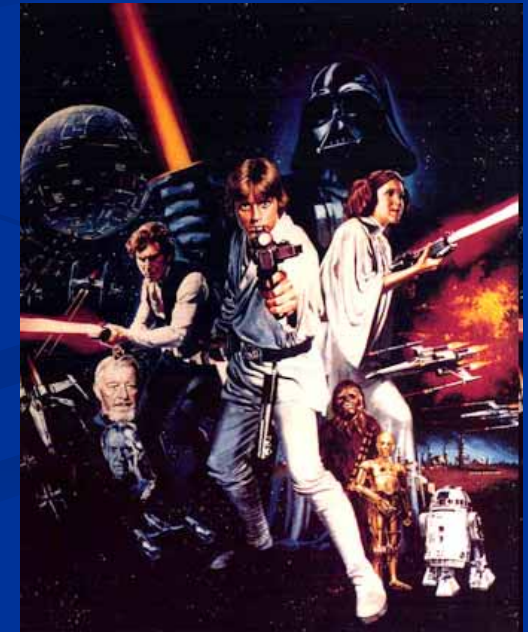


Program budgeting – EU approach

Polish experience – regional level:

- Step by step attitude (e.g. new fiscal rules)
 - Complex team work
 - system of independent public institutions (advisory & audit & control functions)
 - Need for planning
 - Medium-term budgetary frameworks
 - Multi-year Financial Forecast (n+3, ppp)
- (long-term financial planing + development priorities)
- External conditions: EU funds + economic crisis

Don't afraid – **May the Force be with you**



practical results ...

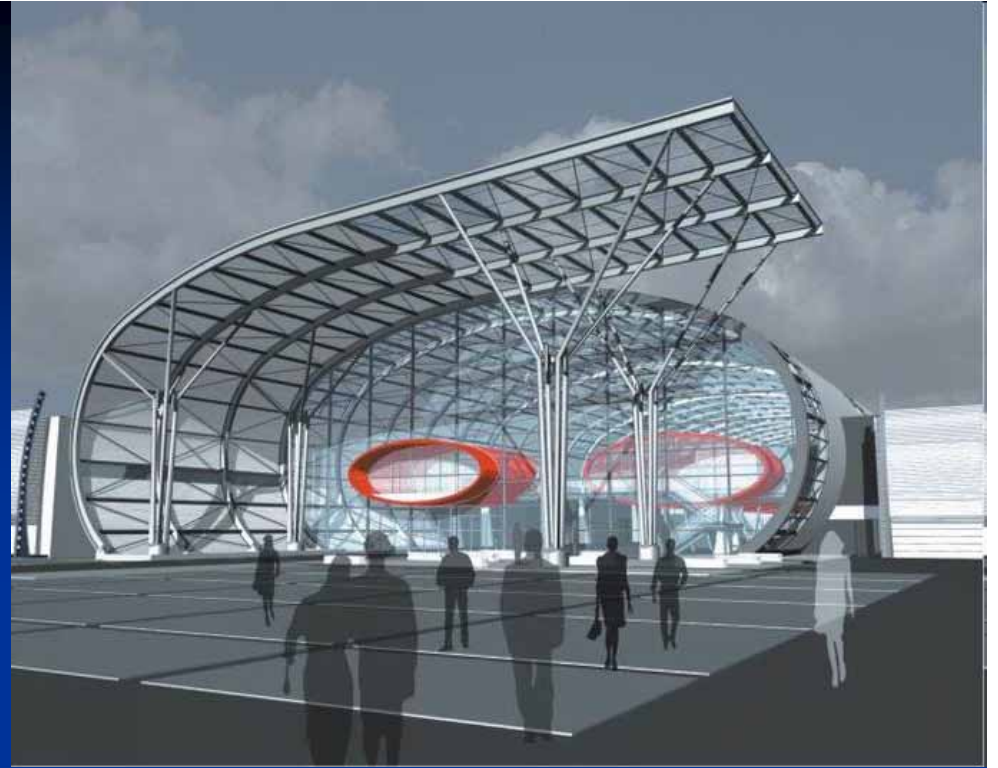


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**”Men build too many walls and not
enough bridges”**

Isaac Newton

Thank you for your attention

Grzegorz Orawiec

