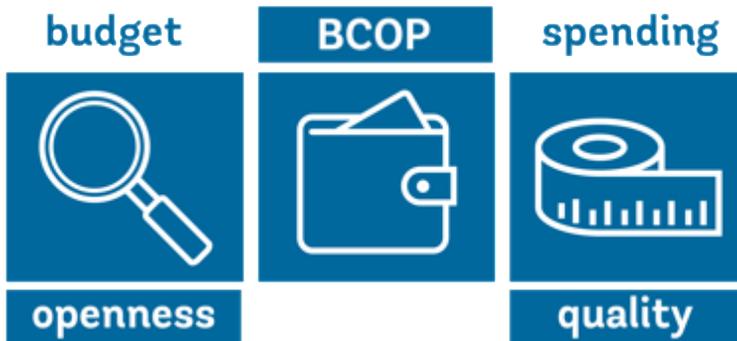




PFM SYSTEM AND PERFORMANCE

BUDGETING IN THE CITY OF BERN



PEMPAL Budget Community of Practice (BCOP)
June 29, 2020 Videoconference Discussion Summary

JULY 2020

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Budget Community of Practice (BCOP)

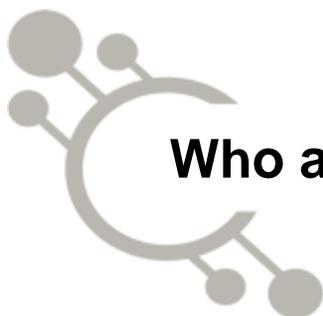
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CONTENTS

| | |
|--|-----------|
| WHO ARE PEMPAL AND BCOP? | 4 |
| 1. BACKGROUND AND OPENING REMARKS..... | 5 |
| REMARKS FROM THE WORLD BANK | 6 |
| REMARKS FROM THE SECO..... | 7 |
| 2. PRESENTATION ON BUDGETING IN THE CITY OF BERN..... | 7 |
| CURRENT BUDGETING SYSTEM..... | 8 |
| LESSONS LEARNED AND PLANS FOR IMPROVEMENT | 11 |
| 3. ROUNDTABLE DISCUSSION | 13 |
| 4. CLOSING REMARKS | 14 |



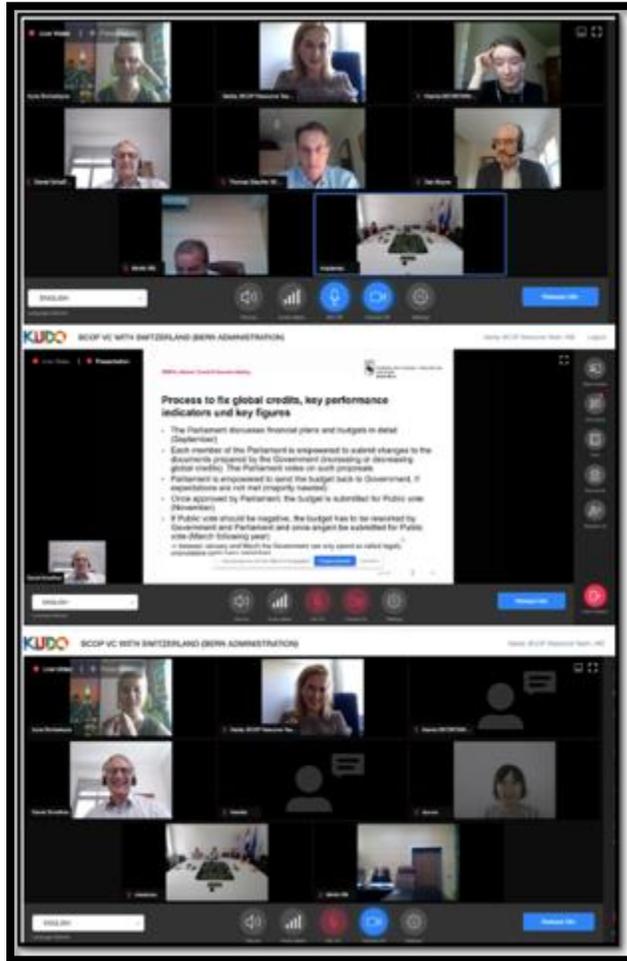
Who are PEMPAL and BCOP?

Public Expenditure Management Peer Assisted Learning (PEMPAL) is a network that facilitates exchange of professional experience and knowledge transfer among public financial management practitioners in countries across the Europe and Central Asia (ECA) region. There are three PEMPAL thematic communities of practice: Budget Community of Practice (BCOP); Treasury Community of Practice (TCOP); and Internal Audit Community of Practice (IACOP). The key donors and development partners to PEMPAL are the Swiss State Secretariat for Economic Affairs (SECO), the Ministry of Finance of the Russian Federation, and the World Bank. BCOP members represent 21 countries from ECA region: Azerbaijan, Armenia, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Georgia, Kazakhstan, Kosovo, Kyrgyz Republic, Republic of North Macedonia, Moldova, Montenegro, Romania, Russian Federation, Serbia, Tajikistan, Turkey, Ukraine, and Uzbekistan.

The main overall objective of the BCOP is to support member country Ministries of Finance (MOFs) in reforms to improve budget effectiveness and accountability. BCOP priorities are: i) sharpening tools for effective budget management, ii) strengthening fiscal accountability and transparency, and iii) expanding of international available data on budgeting in PEMPAL countries. BCOP activity plans include sharing and creation of knowledge through face-to-face learning events, virtual meetings, and learning visits, and through development of knowledge products. BCOP activities are driven by member-led action plans that address key budgeting reform priorities of Ministries of Finance of member countries. In line with the members' thematic priorities, the main feature of BCOP's recent work has been facilitation of knowledge sharing and resource development in the topics of the two BCOP working groups: Budget Literacy and Transparency Working Group (BLTWG) and Program and Performance Budgeting Working Group (PPBWG).

This document has been prepared by the BCOP Resource Team and it provides a summary of discussions from a BCOP videoconference (VC) meeting held on 29 June 2020 to examine budgeting system of the City of Bern. Materials from this event, including slides and background materials, are available at the [PEMPAL website](#).

1. Background and Opening Remarks



Ms. Iryna Shcherbyna, BCOP Resource Team Coordinator and Senior Public Sector Specialist, World Bank, welcomed participants to the meeting, noting that 44 participants attended, including 33 representatives from 10 BCOP member countries (Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Kyrgyz Republic, Romania, Russia, Ukraine, and Uzbekistan). The meeting was supported by experts from the Swiss Government and the City of Bern, as well as the World Bank.

She introduced Mr. Daniel Boyce from the World Bank and Mr. Thomas Stauffer from SECO, who provided opening remarks.

Remarks from the World Bank

Mr. Daniel Boyce, PEMPAL Steering Committee member and Practice Manager from World Bank's Governance Practice, delivered the opening remarks for the meeting. He provided some background information on PEMPAL and noted that this meeting is part of the series of meetings with the Swiss authorities for PEMPAL COPs, organized with the help of PEMPAL donor partners from SECO. The meeting has been organized to replace the face-to-event BCOP's workshop with the Swiss counterparts that was originally planned to take place in Bern in the week of July 6th, within the PEMPAL's network -level leadership meeting. Given the circumstances with the Covid-19 and the associated travelling restrictions, PEMPAL has successfully switched to the virtual working mode since March. Today's meeting is the fourth VC meeting held by BCOP since April 2020. In the previous three meetings and within the work in virtual correspondence, BCOP has conducted important tasks and achieved important results, including:

- i. exchanging experiences on the approaches, challenges, and advice on budget-related responses to the Covid-19 emergency among BCOP member countries and based on the international organizations' advice
- ii. finalizing the work on two knowledge products of the BCOP's working groups
- iii. examining newest information and advice in BCOP working group topics from the World Bank, OECD, GIFT, and IBP
- iv. examining potential impacts of the Covid-19 on budgeting reforms

Mr. Boyce stressed that the continued high interest and active participation of the BCOP membership in the BCOP activities is especially encouraging given the expanded workload and challenges that budget planning and related departments/divisions in Ministries of Finance in PEMPAL countries (and globally) face amidst the Covid-19 emergency. These tasks are additionally complicated by the urgency to design and implement the measures quickly, while at the same time operating in extremely high uncertainty in terms of projections of revenues and the economic and social impact of the crisis.

Mr. Boyce noted that today's meeting is a perfect example of the peer learning cultivated by PEMPAL. While PEMPAL countries exchange information and learn from each other, a key part of BCOP work is also peer learning from counterparts from advanced countries and outside of PEMPAL region. Given the important of program and performance budgeting in BCOP work, SECO kindly arranged for BCOP to have an opportunity to examine the experiences in this PFM area in Switzerland.

The objective of the meeting is to examine budgeting in Switzerland,

specifically the PFM system and performance budgeting in the City of Bern.

The agenda includes a presentation by Mr. Daniel Schaffner Head of the Finance Administration of the City of Bern.

Mr. Boyce concluded his remarks by thanking the PEMPAL donors - SECO and the Ministry of Finance of Russia - for the funding support, which allows bringing together practitioners regularly to share and discuss important common public finance reforms issues. This type of learning from peers and international experts empowers the participants as professionals and helps them to approach PFM reforms in their countries with an open mind. In closing, he expressed hope that PEMPAL community activities and this meeting will help the participants to face the challenges of their jobs and help them to find good solutions for their countries.

Remarks from the SECO

Mr. Thomas Stauffer, Program Manager in SECO's Federal Department for Economic Affairs, also delivered opening remarks. He thanked Mr. Boyce for joining and opening this meeting, the BCOP Resource Team and the Secretariat for organizing it, and in particular Mr. Schaffner from the Finance Administration of the City of Bern for preparing and delivering today's presentation. He also expressed his regrets that SECO was not able to welcome and host PEMPAL participants in Bern as originally planned. He noted that SECO hopes that the face-to-face meeting in Bern will take place potentially in 2021, provided that the Covid-19 situation improves and travelling restrictions ease. In meantime organizing a virtual thematic workshop taking place today is the best alternative to the face-to-face workshop.

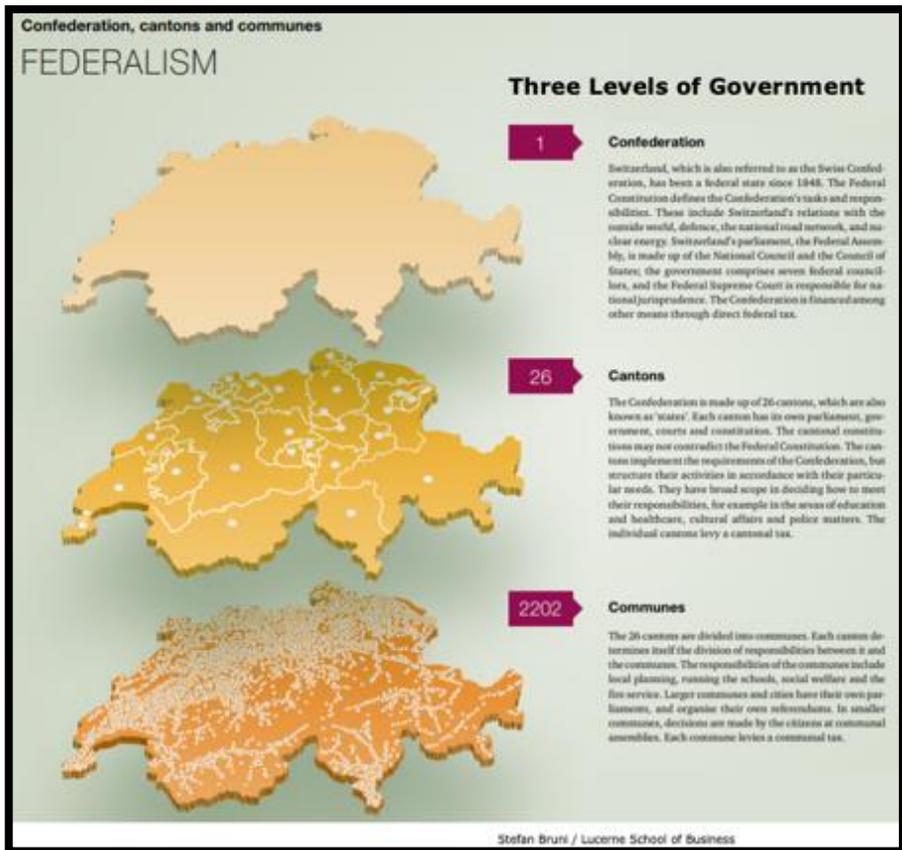
Mr. Stauffer noted that the peer learning approach to capacity building has proven as successful within PEMPAL and that the current crisis actually brought to the forefront the usefulness and effectiveness of this learning approach. In particular, peer learning is an excellent modality to deal with the need for public officials to get the most relevant and effective advice on options to address emergency challenges. He concluded his remarks by wishing a productive and useful discussion to the meeting participants.

2. Presentation on Budgeting in the City of Bern

Mr. Daniel Schaffner, CFO and Director General of the Finance Administration of the City of Bern, delivered a presentation with an overview of the legal and regulatory framework for budgeting in the City of Bern, the characteristics of the system of performance budgeting, and

lessons learned and planned reforms. The City of Bern is one of the communes/municipalities within the fiscal federalism system of Switzerland. As illustrated in Exhibit 1 (sourced from the background material provided for this meeting), the responsibilities of the communes include local planning, running the schools, social welfare and the fire service and larger communes and cities have their own parliaments and referendums.

Exhibit 1: Federalism in Switzerland

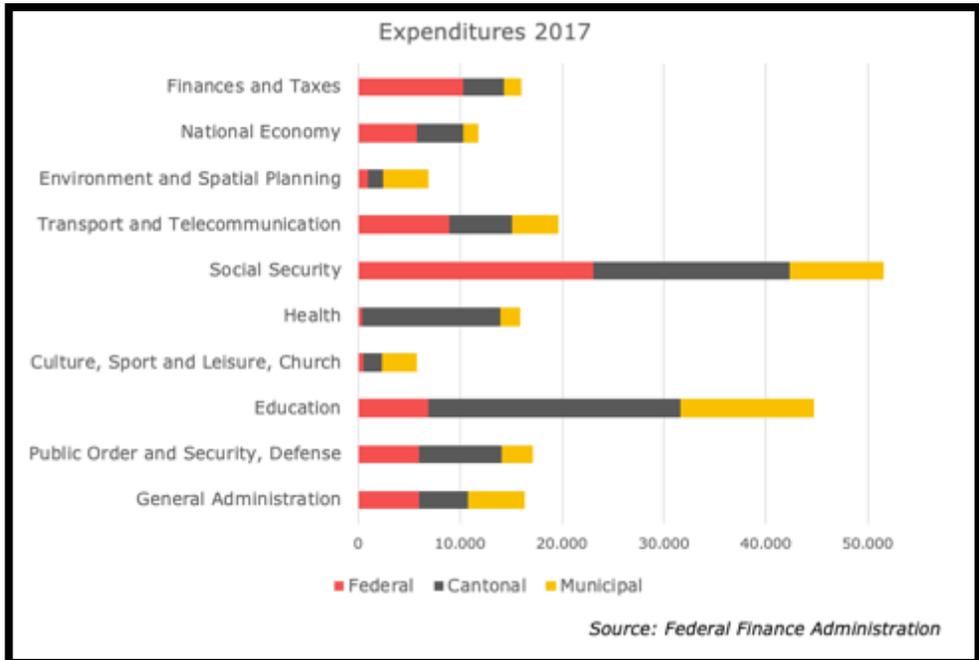


Current Budgeting System

General government expenditures are very decentralized in Switzerland, as shown in Exhibit 2. Overall, combined expenditures of cantonal and communal (municipal) level are around twice the size of expenditure of the central confederation government level. The administration of the City of Bern has 2,670 employees and over expenditures are around 1.25 bil CHF, of which 524 mil CHF are transfer cost. Parliament has 80 members and Government has 5 members; all elected every 4 years. The 5 Government members head 5 Executive Units of the Government of the City of Bern, with 31 operating units and 13 staff functions.

The operations of the City of Bern are governed by the cantonal legislation for the Canton of Bern. The canton defines the tax system and the tariff, while communes fix their tax rate for personal and corporate income taxes. In addition, property taxes are in communes' jurisdiction and communes can levy other local taxes/fees, such as tourism taxes. All communal regulations are put into effect by vote of the population.

Exhibit 2: Expenditure Structure by Administrative Level (in mil CHF)



Financial powers are separated among the population, Parliament, and the executive branch in the City of Bern, with specific rules. The public votes on global budget credits for each operation units within the annual budgets. In addition, the public votes for expenditures that pass specific value thresholds, including all expenditure over 7 mil CHF.

Output-orientated budget planning has been implemented since 2004 in the City of Bern. Global budget credits are not input based but rather focused on the intended outputs of operating units. The intended output in essence forms a service level agreement that is agreed with the Parliament, which approved budget allocation for each operating unit at a global level, without specifications of budget items per economic classification used in traditional budgeting. To measure and track the intended outputs, Key Performance Indicators (KPIs) and Key Figures (KFs) are agreed between the Parliament and the Government. Exhibit 3 outlines the budgeting process and roles, including the role of the public, which approves the intended outputs within the annual budget, in the format of a

30/40-page booklet sent to the public to their home addresses and to the local media by the Parliament with the information for next year and the following four years.

Exhibit 3: Overview of Budgeting Process and Roles in the City of Bern



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Process to fix global credits, Key Performance Indicators (KPIs), and Key Figures (KFs)

- Government & administration prepare financial plan and budget in detail and submit it in May to the Parliament
- The planning documents are examined and discussed by three sub-commissions of the Parliament
- A delegation of the sub-commissions visit each executive unit for a Q&A session and reports the results back to all members of the sub-commissions
- Each sub-commission files a motion to the documents submitted by the Government (representing the opinion of the majority)
- Sub-commissions can submit proposals to change the planning documents of the Government (KPIs, KFs, global credits)
- The Parliament discusses financial plans and budgets in detail (September)



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Process to fix global credits, Key Performance Indicators (KPIs), and Key Figures (KFs)

- Each member of the Parliament is empowered to submit changes to the documents prepared by the Government (increasing or decreasing global credits). The Parliament votes on such proposals.
- Parliament is empowered to send the budget back to Government, if expectations are not met (majority needed)
- Once approved by Parliament, the budget is submitted for the Public Vote (November)
- If the Public Vote is negative, the budget needs to be reworked by Government and Parliament and once again be submitted for the Public Vote (March following year)
-> between January and March the Government can only spend so called legally unavoidable costs (very restrictive)
- Once the budget is accepted by the Parliament it is published on the website of the City of Bern
- Accessible to everyone

Currently there are 222 KPIs for intended outputs and 643 KFs in the budget of the City of Bern for 97 product groups, noting that product groups are essentially comparable to programs in the program budgeting system of most countries. Mr. Schaffner showed specific examples of budget documentation in the area of education and subsequently shared with the meeting participants the list of illustrative examples of KPIs and KFs. As shown in Exhibit 4, KFs are lower level outputs and KPIs are higher level outputs, which have direct impact on costs. This is in line with the output-orientation of budgeting process in the City of Bern and in contrast with the program and performance budgeting in most OECD and PEMPAL countries in which KPIs include higher level outcomes.

Exhibit 4: Examples of KPIs and KFs in Operating Units of Education Authority of the City of Bern

| Operating Unit/ Product Group | Key Performance Indicators | Key Figures |
|---|---|--|
| Local education authority | | |
| 320100 Kindergarten, primary school, special school | 1) number of offers to learn local language for children below age of 5 years | 1) average number of students per class (all levels separately shown) |
| | 2) number of cultural projects conveyed by local education authority | 2) number of students sorted by gender (all levels separately shown) |
| | | 3) costs per student in the area of information technology and new media |
| | | 4) number of school-managers sorted by gender |
| | | 5) operating costs per student (primary school incl. Kindergarten) |
| 320200 Day care | 1) percentage of pedagogically educated personell at day care institutions | 1) number of children in day care institutions |
| | 2) number of children per caregiver | 2) cost recovery level of day care institutions |
| | | 3) number of service hours in day care institutions |
| Youth welfare service | | |
| 330100 Sponsorship for children and teenagers | 1) number of offered scholl-holiday activities | 1) number of subsidised organisations who work with children and teenagers |
| | 2) hours spent working with children | 2) number of participants in school-holiday activities |
| | 3) hours spent working with teenagers | 3) number of visits at the information desk |
| | 4) number of projects with children and teenagers in urban districts | 4) number of web-clicks on specific web-site |
| 330400 Day care for children to support family care | Day care centers for children and teenagers | |
| | 1) number of opening days per year in day care centers | 1) number of children and teenagers using day care centers |
| | 2) degree of capacity utilisation in day care centers | 2) number of day care centers |
| | 3) gross costs per care day | 3) number of jobs in day care centers: a) thereof padagogically educated personnel b) thereof apprentices c) thereof trainees |

Lessons Learned and Plans for Improvement

Mr. Schaffner explained that the objectives of the output-oriented budgeting introduced in 2004 were ambitious. They included expectations to decrease bureaucracy, focus more on strategic topics, shift from short term financial interventions to mid-term financial management, increase flexibility for managers in the operating units in order to cultivate administrative entrepreneurship type of thinking.

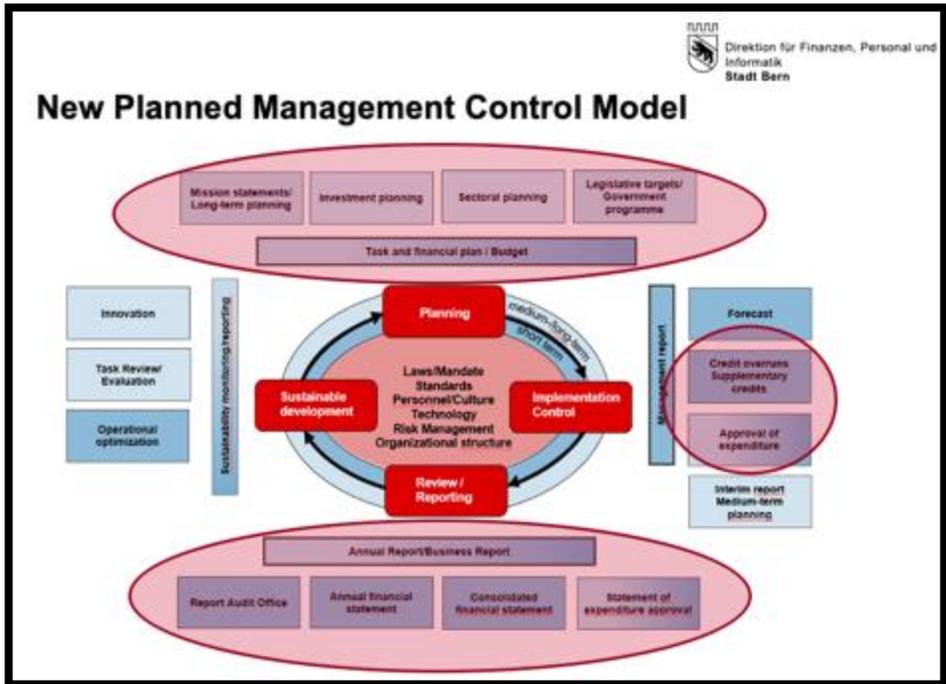
There are several important lessons learned since the introduction of

output-oriented budgeting in the City of Bern. The main lesson has been that the current system creates a large workload with overly extensive reporting that is difficult to understand and manage by parliamentarians, while at the same time lacking a sufficient focus on overall context of financial performance and on mid- and long-term developments. An additional lesson is that the level of influence of the Parliament has been inappropriately high for low level details. Number of product groups (programs) and indicators is too high, which complicates prioritization. Having all this in mind, the main objective to switch from more detailed to more high-level managerial decision-making has not been fully achieved so far.

Thus, the City of Bern is currently undergoing a new process to further reform and improve its budgeting system taking into account lessons learned. The project for redesigning the budgeting system is being implemented in cooperation between the Government and the Parliament. The new system, illustrated in Exhibit 5, will merge currently separated processes of annual and mid-term budget planning, including in the reporting stage. Overall, the new system, expected to be ready by 2023, will focus on a management control model that is more connected to strategic planning and mid- and long-term planning and contextual explanations and coherence. This would allow the Parliament to manage less detailed and more contextual and coherent performance information to enable steering and control at the higher strategic level and with longer term view. In addition, the reporting will be improved and digitalized, and IT systems improved and connected to FMIS.

Mr. Schaffner concluded his presentation with a reflection on impact of Covid-19. The City of Bern focused its activities on ensuring liquidity and on designing and implementing numerous measures to support local businesses.

Exhibit 5: Illustration of Planned New Model of Budget and Strategic Planning in the City of Bern



3. Roundtable Discussion

This final session of the meeting included roundtable discussion during which attending participants posed questions to the speaker, in an extensive interaction with the engagement of most attending participants. Participants' questions were comprehensive and across several budgeting aspects, including the scope of programs, level of expected results captured by performance indicators, the citizens' engagement within the public vote on budget, budget literacy, roles of parliaments in defining and approving performance indicators, budget documentation structure, intergovernmental transfers, and accounting and reporting principles.

Mr. Schaffner explained that the new system will aim at the higher level of program/product group of larger scope and to more clearly express expected outcomes. As in many other countries, including most of the PEMPAL countries, an effort will be made to reduce the level of details in budgeting documentation submitted to the Parliament, while at the same time ensuring that performance information provided is relevant and adequate for decision making

and that it captures better the strategic and longer term vision. A particular spending area for which such mid- to longer-term considerations and cross-government context are needed is public investment management.

In terms of citizens' engagement and participation in budgeting, several non-governmental organizations and associations of different groups of citizens that represent different groups of citizens actively engage in the process. In terms of voting on annual budget, around 40-60% of citizens who have voting rights vote and the budget acceptance rate has always been above 70%, indicating overall satisfaction of the public with the budget. When it comes to budget literacy among the population, there are some financial literacy elements in school courses, although overall more is needed.

The development, adoption, and assessment of the performance indicators and associated performance targets fall within the responsibility of the Parliament in the City of Bern, which is unusual compared to most global practices. The ultimate decision on expected outcomes and the ways to measure them is on Parliament, however, in practice, this is done in cooperation with the administration. The detailed level of indicators and performance information is prepared for the Parliament by the administration. The assessment of achieved performance values takes place within the Parliament's review of the annual budget execution, within which the administration provides explanation for any deviations between the targeted and achieved performance indicator values.

Budget documentation is at the product group level with all KPIs and KFs (i.e. performance indicators with targeted values) and allocations are approved at the aggregate product group/program level. Reallocations within one product group are permitted during the year, while Parliament's approval is needed for expenditure above the approved aggregate envelope. Savings are not automatically transferred to following years for the same product group/program. Each government level has full independence in Switzerland, the subnational level does not have KPIs attached to the transfers they receive from the federal level. Communal/municipal level is free to choose its performance indicators, however some activities are conducted jointly within the cantonal level, such as in the higher education, thus all must be agreed among the communes and their canton.

4. Closing Remarks

Ms. Iryna Shcherbyna thanked the presenter and the participants for their active participation in today's meeting. She also thanked Ms. Carsimamovic Vukotic from the BCOP Resource Team and Ms. Ksenia Malafeeva from the

PEMPAL Secretariat for their assistance in organizing this meeting. She noted that the next face-to-face meeting of the BCOP is tentatively planned in Brussels in November 2020, planned to be BCOP's annual plenary meeting. In meantime, BCOP Resource Team will be in contact with BCOP members via email as per usual, including to share event report for this event and the finalized knowledge products of the two BCOP's working groups. She also congratulated the new recently elected BCOP Chair Ms. Marina Tikhonovich.

Ms. Marina Tikhonovich, BCOP Chair and Deputy Head of the Budget Policy Department of the Ministry of Finance of the Republic of Belarus, closed the meeting by thanking the BCOP Resource Team and Secretariat. She in particular thanked colleagues from the Ministries of Finance of BCOP countries for taking time to attend and actively participate in this meeting and in all BCOP activities. She also thanked the Executive Committee members for entrusting her with the position of the BCOP Chair and noted that she will give her best to provide good leadership and ensure that BCOP's successes continue.

This event report has been developed by PEMPAL and is available in English, Russian and Bosnian-Croatian-Serbian languages. Permission to use, reproduce, or translate this report or information included in this report can be sought by the project's Team Leader Arman Vatyán at avatyán@worldbank.org. Technical questions can be sent to Naida Carsimamovic Vukotic at naidacar@gmail.com and Iryna Shcherbyna at ishcherbyna@worldbank.org. For more information on PEMPAL, BCOP, and PPBWG, see the program's website at www.pempal.org.



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