

CONCLUSIONS OF FIDE'S WORKING GROUP:

**"THE REVISION OF THE PUBLIC
EXPENDITURE MODEL IN SPAIN"**

Madrid, January 23th, 2019

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1.- Initial premises:

During the great recession all efforts have been directed towards introducing greater and better discipline in the management of public finances. This is logical, as it was imposed by fiscal consolidation needs. However, once the economic crisis has been overcome, it seems appropriate to reflect on the quality of public spending in Spain. It is no longer a question of formulating proposals aimed at better control of the deficit or debt, but **rather of implementing a performance-based budgeting system, as well as giving greater relevance to the evaluation and control function.**

The Fide Working Group has met over the course of a year, in seven working sessions, from October 2017 to September 2018. As a result of these sessions, the group puts forward **six proposals**, which are set out below, and whose objective is to **take steps towards a budget model that specifies the policy objectives to be met and that, through evaluation, allows us to know whether and to what extent they are achieved.**

2.- Proposals of the Working Group:

1st- A TRANSPARENT BUDGET BASED ON AN ASSESSMENT OF ITS EFFECTIVENESS AND IMPACT.

"To reform the budgetary programming in Spain in such a way as to make it possible to move towards multiannual budgetary programming, within a performance-based budgetary framework that incorporates the results of ex ante and ex post evaluations, also adopting an intersectoral perspective, coordinated territorially and with transparency towards citizens".

2nd- A PERFORMANCE-BASED BUDGET.

"Undertake a reform of the budget model in order to make it a performance-based budget. As a start, it may be sufficient to have a programme structure, where objectives are defined with their indicators, main activities and allocated resources. At the same time, there must be a system of monitoring and control by results (financial and operational). In a second phase, it would be desirable to have a real program budget, with a more strategic vision.

3rd- A BUDGET COORDINATED BY THE EUROPEAN SYSTEM OF ACCOUNTS.

"Improve the information on public expenditure provided by the budget by intensifying its coordination with the European System of Accounts. In this sense, it would be a great advance to introduce the criterion of accrual and the consolidation of an asset inventory".

4th- EFFECTIVE BUDGETARY ASSESSMENT INTEGRATED INTO THE BUDGETARY CYCLE.

"Integrate evaluation into the budget cycle. This in turn requires the adoption of the following measures:

- Incorporate the evaluation function into the General Budget Law.
- Institutionalize evaluation, which implies developing the evaluation capacity of the management centers, strengthening the control institutions of efficiency and effectiveness, developing evaluation methodologies, intensifying the training of officials in matters of evaluation, requiring that programs of certain relevance present a performance-based framework for evaluation and that they contain a budgetary allocation for this function.
- Incorporate evaluation results into both decision-making and accountability.
- Improve sources of information for evaluation

5th- A ROBUST AND EFFECTIVE MONITORING AND EVALUATION SYSTEM.

"Introduce reforms in the evaluation and control bodies. Firstly, their independence must be strengthened. Second, it is desirable that a body be given the role of governing the evaluation system, through the formulation of principles, the development of methodologies, the provision of training and the monitoring of the quality of evaluations. Finally, Parliament's role in evaluation and control must be strengthened. This in turn means improving the Court of Audits' evaluation capacity by eliminating its judicial role".

6th- TRANSPARENT AND COORDINATED BUDGETARY INFORMATION FOR PUBLIC ADMINISTRATIONS.

"The budget reform we propose must reach all levels of government. To this end, the General Budgetary Law must be attributed the character of basic legislation, in its essential aspects. This implies a common regulation of the planning phase, the budget model and the evaluation function".

3.- Members of the Working Group:

Emilio Albi Ibáñez, Professor of Applied Economics, Universidad Complutense of Madrid; **Ignacio Bayón Mariné**, Legal Advisor to the Council of State and the Parliament (General Courts); **Laura de Pablos Escobar**, Professor of Applied Economics, Universidad Complutense of Madrid; **Rafael Domínguez Olivera**, Chief State Attorney, Ministry of Public Works; **Manuel Fresno Castro**, Auditor - State Auditor and currently General Director of Finance and Management Control of ADIF; **Juan Antonio Garde Roca**, Tax (State Treasury) Inspector; **Paloma Martín Martín**, Director of the Social Services and Health, Deloitte Legal; **José Ramón Martínez Resano**, Economist; **David Mellado Ramírez**, Partner, PWC. State lawyer on leave of absence, Member of the Academic Council of Fide; **Jesús Miranda Hita**, Comptroller and Auditor of the State, Tax Inspector, Comptroller-Treasurer of the Local Administration, and Inspector of the Economy and Tax Services; **Ignacio Moral Arce**, Member of the Institute for Fiscal Studies; **José Alberto Pérez Pérez**, State Treasury Inspector, State Comptroller and Auditor and Inspector of the Services of the Ministries of Economy and Finance; **Cándido Pérez Serrano**, Partner in charge of Infrastructure, Government and Health, KPMG Spain; **Jesús Rodríguez-Márquez**, Professor of Financial and Tax Law, Partner and Director of the Tax Practice Area, F & J Martín Abogados. (Director of the working group); **Rosa Sanz Cerezo**, Partner in the area of Public Law, Broseta Abogados; **Eduardo Zapico Goñi**, Works in the General Intervention of the State Administration.

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4.- Acknowledgments:

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We would also like to thank the speakers, who have participated by introducing the topics for discussion, and all the members of the working group, who have contributed their experience, knowledge of the subject and their personal reflections. It has been months where we have been able to debate and work intensely and it has been an honour and a privilege to be able to count on everyone's contributions.

We would also like to express our gratitude to Jesús Gascón Catalán, General Director, Tax Agency. Member of the Academic Council of Fide, for having attended some of the sessions held in the working group, and his contributions for the elaboration of this document.

5.- Sessions held:

- **1st Inaugural Session: October 5, 2017: The revision of the public expenditure model in Spain.**

Speaker: Ignacio Bayón Mariné, Legal Advisor to the Council of State and the Parliament

- **2nd Session 23 January 2018: Public expenditure programming.**

Speakers: Jesús Rodríguez Márquez, Professor of Tax and Finance Law, Partner in charge and Director of the Tax Practice Area of F & J Martín Abogados y **Cándido S. Pérez Serrano**, Partner in charge of Infrastructures, Transport, Government and Health at KPMG.

- **3rd Session 26 February 2018: Budgetary structures.**

Speaker: Jesús Rodríguez Márquez, Professor of Tax and Finance Law, Partner in charge and Director of the Tax Practice Area of F & J Martín Abogados.

- **4th Session 22 March 2018: Evaluation.**

Speakers: Juan Antonio Garde, Inspector of Services at the AEAT and **Laura de Pablos**, Professor of Applied Economics at the Universidad Complutense of Madrid.

- **5th Session 24 April 2018: Institutional aspects.**

Speakers: Ignacio Bayón, Legal Advisor to the Council of State and Parliament; **José Alberto Pérez Pérez**, State Treasury Inspector, State Comptroller and Auditor and Inspector of the Services of the Ministries of Economy and Finance and **Emilio Albi**, Professor of Public Finance at the Universidad Complutense of Madrid.

- **6th Session 23 May 2018: Territorial aspects.**

Speaker: Cándido S. Pérez Serrano, Partner in charge of Infrastructure, Transport, Government and Health at KPMG

- **7th Session 24 September 2018: Discussion of the document proposing conclusions.**

6.- Annex I: Contents subject to analysis and reflection by the Working Group and their link with the six proposals:

- I. Budget planning.
- II. Budget model.
- III. Evaluation of public expenditure.
- IV. Institutional aspects.
- V. Territorial aspects.

I. BUDGET PLANNING

The financial activity of the public sector is organised around the annual budget cycle. Aware of the need for a longer-term vision, our positive law incorporated medium-term budgetary planning through multiannual budgetary scenarios. As stated in the General Budgetary Law (hereinafter GBL), budgetary planning will be governed by the principles of budgetary stability, financial sustainability, multi-annuality, transparency, efficiency in the allocation and use of public resources, accountability and institutional loyalty.

However, this budgetary planning is largely aimed at **complying with the principles of stability and sustainability**. This observation is by no means a negative one, **it is an essential element, but it is not sufficient**. This circumstance is explained, above all, by the reasons that have led to the incorporation into our law of multiannual budgetary scenarios. Thus, since its creation, this instrument has been linked to the deficit and debt objectives derived from Community Law. It must also be emphasised that it is still a requirement of the European institutions, also aimed at achieving those goals.

Indeed, in recent years, basically as a result of the effort to comply with the requirements of the Protocol on Excessive Deficit, to which we are subject by the Brussels Authorities and the strict compliance with the expected deficit and the expenditure limits for each year that this entails, other **types of principles** seem to have taken a back seat, **such as effectiveness and efficiency** in the allocation of public expenditure and **ex ante and ex post evaluation** with regard to the objectives laid down. To this end, a preliminary step is to start by **defining these objectives precisely and accompanied by a set of clear, concrete and measurable indicators**.

Perhaps for this reason, **there is a lack of planning -at least, its formal explanation- that is aimed at translating, in a multi-year scenario, which are the policy objectives that are sought to be achieved, which is the alternative chosen among the different possible ones, for what reasons, which results are sought to be obtained and, finally, which are the financial resources to be allocated in each financial year. In some areas, there is planning at the level of public policy, but there is no budgetary repercussion**.

Finally, ex-post evaluation is not used in this planning phase either. Thus, knowledge about the **results and impacts achieved** - or not with the programmes already developed - should be an essential input for future planning. But, in this aspect, the problem is

preliminary, since **our country lacks a systematic, institutionalized evaluation process parallel to the budget cycle.**

Multi-annual planning should be formally considered as the first phase of the budget cycle, including the setting of objectives and indicators, so that accountability and evaluation extend to the use of available resources, as well as to the achievement of the defined public policy objective. Evaluation always reduces uncertainty but loses some of its meaning if the objective to be achieved has not been made explicit.

The goal, therefore, should be to **make budget programming the basic tool of strategic definition in the long term of public policies.** However, as noted above, budget management in Spain focuses more on aggregate fiscal discipline than on allocative efficiency or efficient operational management. For this reason, our proposals seek a balanced articulation of all these functions, and this requires that the macro and microeconomic focus of the budgeting programme be reconciled by means of procedures, information flows and institutions that are sensitive to the various considerations.

One dimension in which this sensitivity must be manifested is the temporal dimension, a dimension in which aggregate inconsistencies are naturally expressed and in which the inefficiencies that accumulate, as well as citizens' aspirations in terms of economic policies, are revealed. From this point of view, medium-term budgeting is a need that has only been imposed very partially in Spain. **Medium-term budgeting must effectively mean integrated documentation of the link between political priorities and scarce available resources.** Medium-term budgeting thus constitutes not only a technical requirement imposed by the natural sequence of planning and execution, but an economic policy requirement for efficiency, discipline and predictability. The inter-temporal consistency imposed by the medium-term budget naturally proposes a **programmatic definition of the budget.**

In relation to the foregoing, at this micro level to which we refer, multi-annuality is not incorporated into planning in its entirety. This is mainly due to the fact that multiannual planning limits the freedom of political decision-makers, insofar as it provides a narrower framework in the medium term. **That is why certain instruments which introduced elements of multi-validity, such as programme contracts and agreements, have practically been abandoned.**

The previous deficiency is even transferred to the parliamentary debate, where all the discussion is centred on the approval of the annual budget, without contemplating the liquidation of the previous ones, which would allow a look beyond the following financial year.

In fact, in our country the multi-annual nature of the PGE is defined only at the formal level. It is also very evident that little importance is given in the respective Budget Committees of Congress and Senate, not only to the estimates for years $n+2$ and $n+3$, but also to the liquidation of the Budgets of the previous year -which should be the real starting point with respect to what is expected to be done in the following year- and, for example, to the comparison that could be made between the budget to be approved for

year n+1 with the budget of year n with respect to the same year n+1. Theoretically, the differences should be smaller but, in practice, and especially with regard to investment budgets, the differences are gigantic because appropriations are carried over to the following year as the current year's appropriations are not implemented, in order to maintain the fiction that the next year's budget is larger. The issue is of such a magnitude that the multiannual data from the GIPs are of such a poor quality and budgetary quality, something which, sadly, is also of no practical significance because they are not analysed.

The solution to this lack of rigour would involve a series of **measures aimed at improving the quality of our budgets**. Among many others, the following could be stated, proposed by some member of the Working Group:

- To promote a Budgetary Office directly dependent on the Courts, to grant new competences to the Court of Accounts, reforming it and, in its case, to give greater weight and transcendence to the reports of the current Airef. These questions, which are already interesting to advance them, will be the object of monographic treatment when analyzing the institutional aspects.
- Modify the political calendar of budgetary processing, which should try to be reduced in time (the budgets for the year n begin to be elaborated in May, so it would be more realistic to try to coincide both the elaboration of the budget and the processing and approval in the last four-month period) and should begin its analysis and rigorously judging the execution of the current year before analyzing the following year.
- Even to introduce in Public Sector entities some type of bonus-malus incentive mechanism with economic consequences for the Ministry or Public Entities with respect to which unjustified budgetary deviations were more evident. This proposal would affect, above all, the investment budget.

Policy objectives are difficult to achieve through the isolated intervention of a single Ministry. This adds to the complexity of the planning phase, which is also not well resolved in our country. Thus, these aspects are dealt at the Committee for the Analysis of Budgetary Programmes, which carries out coordination tasks. But, in the end, both in the planning phase and in the preparation of the annual budgets, the issues are resolved, to a large extent, by means of a struggle and balance of powers. In short, what we could call the "political economy in the preparation of the budget", scarcely studied.

In any case, intersectoral conferences should be encouraged at this planning stage. However, this requires, in advance, **serious progress in the formulation of a programme budget, since such a technique requires the selection of sectoral priorities and the allocation of resources in the medium and long term, reducing the possibility of unjustified discretionary changes. In the following pages, we will explain in greater detail the relationship between the programme budget and the Performance-based Budget (hereafter PbB), a model that, as we have also indicated, is favoured by the group.**

In close relation with the above, we have a very complex distribution of competences between the **State and the Autonomous Communities**, with shared competences in many cases. This would also require **coordination between both Administrations when carrying**

out their budgetary programming, which does not exist. Moreover, not even the budgetary structures are coincident, nor is the level of legal linkage of multiannual planning. In these conditions, it is not that coordination is difficult, it is that it is also the same knowledge of the total expenditure allocated by function and less on a multiannual basis.

It is true that there are **some virtuous examples**, such as, to cite one of the most recent, **the Study on the rationalisation of health expenditure, drawn up within the Fiscal and Financial Policy Council as a result of a mandate from the Conference of Presidents. As a result, the system of centralised purchasing in the health sector was adopted, which has achieved great savings for the sector. However, in our country such measures are an exception, which the group considers should be strengthened.**

On the other hand, this type of actions ultimately calls into question the decentralisation model followed in Spain, where it does not seem that the optimum level of provision of each of the services has been analysed beforehand.

There are **comparative experiences that deserve to be studied. By way of example, in France, the main lines of planning are defined at central level and by law, restricting the budgetary space of the Administrations.** And this is because the assumption of different lines entails, as a sanction, the non-financing of politics by the State. However, it must also be recognised that such model is scarcely transferable to the case of Spain, a highly decentralised State where the Constitution recognises the political autonomy of the Autonomous Communities.

In addition, there are purely domestic measures that could be considered in order to **achieve greater budgetary homogenisation between the State and the Autonomous Communities.** We refer to the basic attribution to a good part of the content of the General Budgetary Law, in order to achieve, at least, a uniform presentation of spending policies in the country, which is not currently the case. These issues will be further developed by analysing territorial aspects.

The planning, budgeting, execution, accountability and evaluation cycle does not allow citizens, in a way that makes it possible, to have a vision of the extent to which programmed public policies have been budgeted, executed and achieved the objective initially indicated.

However, the level of citizens' perception of the information on multiannual programming, accountability and evaluation of the activity carried out is much lower than the budget approval process. Linking all phases of the budget cycle, including planning and evaluation, and designing appropriate timetables can improve the quality of information provided to citizens. In the absence of a better alternative, **the presentation of annual budgets can become the key moment for analysing the available information.**

But the truth is that our country's position on this matter is not good. **The Open Budget Survey is prepared annually by the International Monetary Fund and measures the budgetary transparency of the different countries through a panel of 109 indicators,**

which evaluate the degree to which the government offers citizens opportunities to participate in the budgetary process. Well, in line with the data from previous years (and even with a slight backward step) **the survey for 2017 gives Spain a total score of 54 (out of 100) in the transparency indices, and places it in the 40th position of developed countries far below countries such as Sweden (87), Norway (85), the United States (85) or the United Kingdom (74).** Likewise, it assigns a total of **2 out of 100 points in the measurement of the public participation process in the preparation of the budget, and 56 out of a total of 100 in the process of monitoring the budget by the legislature and the control bodies.**

1st Proposal: *"To reform the budgetary programming in Spain in such a way as to make it possible to move towards multiannual budgetary programming, within a performance-based budgeting framework that incorporates the results of ex ante and ex post evaluations, also adopting an intersectoral perspective, coordinated territorially and with transparency towards citizens".*

In accordance with the above ideas, **the Working Group considers it necessary to introduce far-reaching improvements in the budgetary planning in Spain:**

First, progress should be made towards multiannual planning of expenditure within a performance-based budgeting framework. This, in turn, requires that such planning has the following characteristics:

- ✓ **It must be aligned and coherent with the sectoral strategies or plans of the management centres.**
- ✓ **It must include not only financial information, but also information on the main objectives and lines of action in the medium term, with their corresponding indicators and medium-term projection of the necessary resources.**
- ✓ **It should be based on evidence from ex ante analysis and evaluation.**
- ✓ **It must be flexible, with projections for the next three. Variations should be well justified by changes in government priorities or changes in the public management environment.**

Secondly, the budgetary planning phase, as we have just pointed out, **must incorporate ex ante evaluations and the results of ex post evaluations.**

Thirdly, **steps must be taken towards a multiannual budget, towards multiannual budgetary planning.** As we said, such a multiannual budget already exists in Spain, but from a formal rather than a substantive point of view. Planning needs to take account of the **effects and opportunity costs of major public policy decisions in the medium and long term. This means that budget negotiations, led by the Ministry of Finance, should be approached strategically, thinking about the consequences of budget allocations beyond the following financial year.**

At the same time, the parliament should also analyse the accounts with a multi-annual vision, starting from the liquidations of the previous budget and projected on the budget

of the next year and the following two years. For this multiannual vision to be introduced into the parliamentary debate, it is essential that the Court of Audits does not delay issuing its reports, as well as bringing forward the presentation of the annual account to Parliament. It seems necessary, before discussing the budget for the following year, to devote sufficient time to the liquidation of the previous financial year.

In addition, however, **the Court of Auditors' analysis must relate not only to the degree of implementation of expenditure, but also to the non-financial results of the management of budgetary programmes.** At the same time, the structure of the information in the annual account must also be consistent and comparable with the budget structure.

Finally, what is important is that there should be a willingness and commitment from all the acts involved to incorporate this multiannual vision into the parliamentary debate.

Fourth, there is also a need to **introduce advancements in intersectoral planning, focusing at least on major programmes related to government priorities.** It is a requirement to definitively overcome organic and economic models, which only answer the questions of who and how is spent, in order to **go deeper into what and why is spent.**

As such, and bearing in mind that most public policies are allocated or distributed among different ministries, agencies or spending centres, it will be necessary to carry out planning by programmes or budget projects covering different sectors or spending centres. This coordination (or leadership of a given programme) would be carried out by the one with the greatest degree of participation or initiative in it, either from a financial or strategic point of view. Even the Office of the President of the Government could carry out complementary coordination work.

These advances in intersectoral planning should also be transferred to parliamentary discussion, so that the budgets of Ministry "X" or Ministry "Y" are not discussed through bodies or commissions, but rather Programme "A" or Programme "B" presented, as we have said, by whoever leads it. To put it graphically, the corresponding Minister would not appear in Courts as such, but would appear in his or her capacity as the person responsible for this or that budgetary program.

Fifthly, **there should also be greater coordination at territorial level in the planning phase, a task that could be carried out, at the aggregate level, through the Fiscal and Financial Policy Council. From a sectoral point of view, it would be appropriate to create committees or working groups within the framework of the sectoral Conferences.**

Finally, **citizen information must also be improved at this planning stage. This is perhaps one of the areas where our budget model needs to make the most progress. To increase public participation in the budget process, the IMF recommends that Spain incorporate a series of innovations, such as participatory budgets and social audits** (examples of such mechanisms can be found at www.fiscaltransparency.net/mechanisms).

The integration of the Spending Review (hereinafter SR) into the budget cycle can also contribute to increasing the quality of the process. SR is the process of improving budget results through a smarter allocation of resources.

This process consists of analyzing existing individual expenditures in a coordinated manner in order to detect:

a) opportunities to restrict funding for non-priority or low-impact policies according to policy objectives, and

b) possible efficiency improvements, reducing costs or improving quality at the same marginal cost ('Quality of Public Finance. Spending Reviews for smarter expenditure allocation in the Euro area', European Commission, https://www.consilium.europa.eu/media/23582/eg-15-june-2017_note-on-spending-reviews.pdf)

In this sense, the group considers that it may be of interest to examine some **comparative experiences**. This is the case, for example, of the **United Kingdom**, where reforms have been carried out aimed at encouraging and evaluating, in the positive sense of the term (management orientation), behaviour in the budgetary process in order to overcome traditional bureaucratic limits and thus encourage joint interdepartmental action. Other reform initiatives include the "Comprehensive Spending Review" which involves the evaluation of investments for improvements in public services, taking into account all the participating departments and the "Public Service Agreements", or management agreements with commitments of results, in exchange for budgetary funds including some interdepartmental funds with joint actions and results.

II. BUDGET MODEL

A second aspect that must be addressed when formulating a proposal for improving public expenditure is that of the budget model that we advocate. As a starting point, **the group opts, as we have already said, for the so-called PbB**. Pages back we have pointed out the need to make serious progress on the **programme budget**. **We address the relationships between the two models in order to avoid misunderstandings and demonstrate the absence of contradictions in our approach.**

When we talk about a PbB model, we assume a budget model that provides information about the specific purpose of the expenditure, it tells us which are the products or services -outputs- that, through the budget, are provided to society. For this reason, it enables the analysis of each input-output relationship, the monitoring of results and deviations in the achievement of objectives and costs. The programme budget, however, adds a strategic vision, incorporating the methodological development of the final result indicators -outcomes- in the target population of the programme and impact and the analysis of alternatives for action in the programme.

Having clarified the above, we also know that overly ambitious approaches can lead to the failure of proposals. That is why we can state, **in general terms, that the group prefers a budget model that connects, in a better way than currently, the means to be used with the results.** It would also be desirable, as we pointed out previously, to improve intersectoral coordination, by integrating the manager's planning and budget and the evaluation and control systems.

This, in turn, **allows evaluation to be incorporated as one more function to be developed within the budget cycle.** In short, **the eighth principle of good budgetary governance set out by the OECD, namely "to ensure that results, evaluation and cost/benefit ratios are an integral part of the budgetary process" (OECD: "Council Recommendation on Budgetary Governance", 2015).**

This requires concrete modifications to the structure of our budget, which will be discussed later. However, in advance we want to highlight the existence of previous deficiencies that hinder the implementation of a PbB. Next, we will address the key aspects that must be considered in order to implement a PbB. Finally, we will end this section with an explicit reference to the design of budgetary programmes.

One of the main problems posed by the implementation of a PbB is the current insufficiency of the budget to reflect the reality of public spending in our country. This is mainly due to formulas that allow investments to be undertaken without budgetary reflection, such as public-private collaboration modalities, or transfers to public business entities or consortiums, which are the ones executing the expenditure policy in question.

The above techniques mean that, to a large extent, the budget does not reflect the reality of expenditure, which is developed on an extrabudgetary basis during certain years, but has an impact on future budgets. From this perspective, the National Accounts, following the rules of the European System of Accounts, better reflect the real expenditure and, with it, its objective, the measurement of the deficit of the Administrations. However, **this Accounting does not constitute a budgetary management tool, but rather a system for measuring the results of public accounts.**

Por ello, parece que las modificaciones se deberían hacer en el presupuesto, que sí constituye un instrumento que permite y debería presentar la totalidad del gasto público aprobado, su ejecución y, mediante la evaluación, los resultados obtenidos. Tal vez una vía de adaptación puede ser la de **acoger un modelo de presupuesto por devengo, no por caja. En todo caso, deberían reducirse los ajustes entre el presupuesto y la Contabilidad Nacional.**

Therefore, it seems that the changes should be made to the budget, which is an instrument that allows and should present the totality of the approved public expenditure, its execution and, through evaluation, the results obtained. Perhaps one way to adapt could be to **adopt an accrual budget model, not a cash model. In any case, the adjustments between the budget and the National Accounts should be reduced.**

This also reveals a **lack of transparency in the very approval and execution of public expenditure, which is outside parliamentary control and public opinion.** This is just one more argument in favour of the need for the budget to reflect the totality of expenditure. Improving transparency improves control and, with it, accountability of the results obtained.

Another factor that, although outside the budget, conditions the viability of a PbB is the type of public administration we have. In the case of Spain, it does not seem that the type of Administration we have is the one that best adapts to the PbB model. It is built around bureaucratic structures not aimed at results-based management. In fact, the recent Law 40/2015 has ended what was an incipient introduction of the agency model.

This translates into insufficient development of the management function, as well as excessive centralisation and rigidity in the management of human resources and the management and control of expenditure.

In short, **the cost management centres lack a performance-based strategy, lack information systems that allow management of this type, and, finally, we lack bonus/malus incentives in the event of not obtaining results. In fact, there is not even this type of incentive for not sending information about results, which should be introduced beforehand.**

In the previous section, relating to budgetary programming, we have already highlighted the **lack of coordination between the State and the Autonomous Communities. This lack of coordination goes far beyond the programming phase, since there are no shared budget structures either, so it is practically impossible to know the aggregate expenditure by functions in our country.**

Once we have exposed the previous difficulties we face - and the solutions pointed out - it is time to examine the process of implementing a PbB. To this end, we are going to follow the scheme proposed by the User's Guide published by the OECD (OECD: "Performance Budgeting: A User's Guide", 2008).

There is no single PbB model, as these range from a simple presentation of the budget with information about objectives and indicators to, at the other extreme, budgets that automatically determine the allocation of resources based on the results achieved. In the middle are those models -perhaps the most "practicable"- that allocate means indirectly, depending, among other factors, on expected future results and past results. The results are taken into account in the budgeting process, but they do not have a direct and pre-determined impact on the specific sum to be allocated.

Con los modelos descritos se suelen perseguir diferentes objetivos, dependiendo de cada país. Pero, en general, pueden identificarse **tres que constituyen una nota común en la experiencia comparada, a saber:**

With the models described, different objectives are usually pursued, depending on each country. But, in general, **three can be identified that constitute a common note in the compared experience, namely:**

- **Firstly, to achieve certain budgetary priorities, such as controlling expenditure and improving the allocation and efficient use of funds.**
- **Secondly, to improve public sector performance.**
- **Finally, to improve accountability to parliament and public opinion.**

Once targets are set, governments must introduce performance information into their budgets and management systems. Some countries are inclined to introduce legislative reforms, while others, such as the United Kingdom, implement the system using guides developed by the Ministry of Finance.

When it comes to initiating a process of modifying the budget model, three major strategic decisions need to be taken.

- **Firstly, whether the process is to be carried out from top to bottom, or vice versa.**
- **Second, whether the new form of budgeting will be implemented throughout the budget, or only in some sections.**
- **Finally, whether such a process will be carried out gradually, step by step, or through a radical reform.**

In addition to the above, which are common to any country, there are other decisions, of a more operational nature, which should also be taken.

- **First, whether the process is carried out from above or viceversa, it must be decided which organs of the Administration are going to carry out the functions of impulse or coordination.** In this sense, it may be thought that this is a far-reaching reform, which requires the participation not only of the Ministry of Finance, but of the Presidency of the Government itself. But we must also consider **the participation of other bodies and institutions, such as the GD of Budgets, the IGAE, the Court of Auditors or the Parliament itself.**
- **Secondly, it must be defined how relations are to be established with the centres managing expenditure,** perhaps unwilling to collaborate, given the long experience of an excessively bureaucratic relationship with those responsible for the budget.
- **Thirdly, the reform itself must be evaluated in terms of its results, which requires defining which bodies and techniques are to be used for that purpose.** Finally, the success of the reform also depends on staff having sufficient training in the management of a PbB, which requires the planning of appropriate training actions, which could be developed by the School of Public Finance, integrated into the Institute of Fiscal Studies.

Most OECD countries, including Spain, include non-financial information in their budget documents, but this does not mean that this information is used for decision-

making. This requires that the budget be constructed thinking about why funds are allocated to certain policies and whether their use produces the expected results.

This objective is achieved, in a simpler way, through the use of certain budgetary structures, such as programmes, to which we dedicate the following section.

It is also desirable that this performance information be introduced into the negotiations between the Ministry of Finance and the ministries executing the expenditure.

However, it is also true that most OECD countries do not make use of a direct link between spending and performance results. If we talk about incentives, basically there are three that can be detected in the comparative experience:

- First, award prizes or financial penalties based on results.
- Second, increase or decrease financial and/or management autonomy.
- Finally, draw up lists of the best and worst positioned spending centres in terms of results.

In spite of all that has been said, the truth is that neither the existence of a programme budget nor a system of incentives ensures, by themselves, the use of information in decision-making. The first is a logical prius, but not a guarantee. Incentives, on the other hand, are difficult to implement and can give rise to undesirable behaviour, such as the disguising of figures, the definition of objectives and indicators below expectations, and the like.

For this reason, it seems that the **key factor in achieving the use of results information is the motivation of the managers themselves, i.e., that the information is useful and relevant to the centres and that they have participated in the process or, at least, have been consulted.**

In our country, one of the budgetary classifications used is the classification by programmes, which even incorporates objectives and indicators. The fact is, however, that **there is little legal linkage between programmes, and their use in management is also very limited. This is largely due to the fact that the information contained in the programmes is not very relevant, since it is usually more descriptive than analytical, the objectives are defined in terms of immediate products -outputs- and not final results -outcomes-, financial information is not integrated with non-financial information and finally, many of the indicators are defined in terms of resources.**

In any case, since this tool already exists, it seems that, from a technical point of view, **a possible introduction of a PbB should be improved.** One of the areas of improvement is, in addition to those already indicated, the introduction of products, as well as their quantification. It must be the answer to the questions, what is given to citizens, or what do citizens receive? **They must have the following characteristics:**

- It must be able to achieve an objective set to the institution (this in our country is a problem, given the absence of explicit "micro" planning).
- It must be a complete good or service.
- It has to be lent or delivered abroad: citizenship or another ministry or entity.
- It can contribute to achieving more than one result: education, in addition to graduate students, can have other objectives, such as avoiding unemployed juvenile delinquency, or the economic growth of the country with trained citizens and employees.
- It should not be confused with activities. e.g.: a preoperative study is an activity necessary for the surgical intervention of the patient, it is not a product in itself, but an activity that collaborates with the "operated patient" product.
- It should not be confused with input tax
- It must be quantifiable, in a precise unit of measurement, never subjective:
 - o Goods will be directly quantifiable (housing delivered)
 - o The services will need indicators for their quantification (number of trips, number of patients attended in hospitals).
- A product is not a "way of acting". E.g.: Better attention to the taxpayer. The product is the Taxpayers served, and the quality of this product will be measured through indicators.

2nd Proposal: *"Undertake a reform of the budget model in order to make it a performance-based budget. As a start, it may be sufficient to have a programme structure, where objectives are defined with their indicators, main activities and allocated resources. At the same time, there must be a system of monitoring and control by results (financial and operational). In a second phase, it would be desirable to have a real program budget, with a more strategic vision".*

As with programming, **the Working Group has also made specific recommendations to improve the Spanish budget model.** The first decision, of course, is to decide which budget model we consider preferable. On this point, there seems to be a consensus in favouring the implementation of a PbB. However, it must be kept in mind that, for decades, many countries have tried to implement a series of budgetary techniques - PPBS, ZBB, RCB, Performance Budget, Budget for Results- in order to put an end to budgetary incrementalism. These techniques correspond to a rational budgetary model. Some of these techniques (PPBS, ZBB) were in principle very sophisticated (they required great efforts of analysis and application of criteria for maximising utility when allocating expenditure between different programmes). Great difficulties were encountered in the implementation of these techniques and they were abandoned.

At present, and this is the Group's view, budgetary reform must be approached in a less ambitious and more pragmatic way. It seems generally accepted that in order to promote results orientation it is sufficient to introduce the basic elements of a budget by objectives (structure of the budget by programme or broad lines of action,

definition of objectives with their indicators, main activities, and allocated resources), together with a system of monitoring and control by results (financial and operational).

However, the programme budget has a more strategic scope or vision and is more oriented towards interdepartmental and intergovernmental coordination, and therefore seems more appropriate for the Spanish case. But, once again, it is necessary to opt for pragmatism and a gradual process.

In any case, the improvement of the expenditure management system does not need to be based on a strict or pure model. Both techniques have common elements that can be introduced selectively and progressively.

3rd Proposal: *"Improve the information on public expenditure provided by the budget by intensifying its coordination with the European System of Accounts. In this sense, it would be a great advance to introduce the criterion of accrual and the consolidation of an asset inventory".*

- ✓ The implementation of a new model also requires improving the information on public expenditure provided by the budget itself **and, in particular, introducing better coordination with the European System of Accounts.**
- ✓ **The PbB model does not have to be implemented in all areas of the budget, but only where it is valid and useful.** The more complex or uncertain the management environment, the more difficult and questionable will be the simple application of rational budgeting techniques and accountability for results (e.g. environmental policies, immigration, R&D).
- ✓ **Within the Group, there has been discussion of the content of the budgetary programmes, which constitute the central axis of a PbB model.** Above all, the overall structure of the programme budget should be designed in close collaboration between the Ministry of Finance and the sectoral ministries. Each budget programme must be designed by the manager responsible for it. Basically it should include:
 - Introductory information (head of the programme, legal and strategic framework).
 - Description and analysis of the problem one is facing.
 - Assessment of alternative strategies.
 - Priority objectives to be pursued (reduced number) accompanied by their indicators.
 - Lines of action and main activities.
 - Resources assigned to each objective.

In addition, the information and data presented in the programme should be projected beyond the financial year (normally the financial year plus two years).

Finally, a PbB also calls for performance-based public sector reform. That is, we are not dealing with an isolated reform that can be implemented and works and delivers achievements regardless of the administrative environment in which it takes place. On the contrary, **its success depends on a comprehensive reform, which goes beyond the limits of this Working Group. In any case, we do not want to miss out on some of the concrete reform measures that are presented as essential:**

- ✓ Adaptation, as far as possible, of the organisational design of ministerial departments to the divisional structure (executive agencies).
- ✓ Development of a management function.
- ✓ Adaptation of control systems and accountability for results.
- ✓ Decentralisation and flexibilisation of HR management and expenditure management.
- ✓ Development of the internal financial management capacity of management centres (adaptation of information systems for internal monitoring of budgetary programmes, analytical accounting, cost estimates of the most relevant services or products).

III. EVALUATION OF PUBLIC EXPENDITURE

When we talk about evaluation, the first problem that arises is that of the very definition of the concept. This is due to the scarce dogmatic development of evaluation and its lack of institutionalization and legal discipline. Thus, there are profound developments in qualitative and quantitative evaluation techniques, but little attention to defining their role - above all, from a legal and institutional point of view - in the public expenditure process in general and in the budget cycle in particular.

In any case, evaluation can be broadly defined as the integral process of observation, measurement, analysis and interpretation, aimed at the knowledge of a public intervention, norm, program, plan or policy that allows a value judgment to be reached, based on evidence, with respect to its design, implementation, results and impacts. More simply, it can also be defined as the application of systematic research methods to examine the design, implementation and outcome of public policies and programmes.

Focusing on the object of our study, the fact is that an evaluation makes it possible to know and measure the degree of compliance with the objectives of public policies, as well as their effectiveness and efficiency. It must also measure the impact achieved with respect to economic and social progress and the well-being of citizens. **It is a very useful instrument, therefore, to measure the degree of compliance with the provision contained in Article 31.2 of the Constitution, which, as we know, states that "public expenditure shall make an equitable allocation of public resources, and its planning and execution shall respond to the criteria of efficiency and economy".**

We have previously defined **evaluation as an integral process**, which leads us to the exposition of the phases of it, which runs parallel to the design and execution of the public action in question, in our case, the budget.

- In the first place, there is an **ex ante evaluation**, prior to the implementation of public action, which makes it possible to analyse objectives and priorities, as well as to design policies and programmes.
- Second, there is a **process or concomitant evaluation, which analyses the achievement of results, the specific causal contributions of activities to results, examines the implementation process and provides information about achievements and offers recommendations and improvements.**
- Finally, there is an **ex-post evaluation**, which takes place after the end of the public intervention or a period within it, and analyses immediate, intermediate and final impacts or results.

Finally, it is also worth distinguishing the evaluation we are interested in from two other activities connected to it. First, it should be noted that **the evaluation we are interested in is that of a strategic nature, which seeks to obtain information about the achievement of policy results and its impacts.** This type of evaluation is the one that would be used in programme budgets. It must therefore be distinguished from performance evaluation, which moves in the operational, not strategic, sphere. Secondly, it must also be differentiated from follow-up or monitoring, which is characteristic of PbB and which, on an ongoing basis, allows actual results to be compared with goals.

Institutionalizing the evaluation means creating an evaluation culture in government settings in such a way that it is perceived as part of the public policy management process. Consequently, it implies that managers design, from the beginning, the actions in which the country's policies are concretized so that they can be evaluated. It therefore requires **the configuration of a permanent model of analysis of results, defining the principles and values on which these analyses and evaluations are based, framing them within a political governance project.**

The first step is therefore the existence of the political will to evaluate, the most immediate manifestation of which is the approval of legal instruments. Although this political will to institutionalise evaluation appears to exist in almost all countries, there are still certain elements that act as a brake:

- The very design of policies, with contradictory objectives and often linked to the electoral cycle.
- The reluctance of managers, who understand the evaluation of policies as a way of evaluating them.
- The resources required for evaluation, sometimes perceived as an unnecessary expense.

In summary, in order for the evaluation to be considered institutionalized, it must meet the following requirements:

- Utilizada como mecanismo de retroalimentación en las decisiones.
- It must be regulated by legal instruments.
- Established with obligatory character, thus avoiding the discretionality in the decision to evaluate or not.
- Applicable, at least, to the strategic sectors of the public sector.
- Systematic, according to previously established criteria, avoiding responding to specific and punctual demands.
- Planned, and therefore programmed and endowed with its own budget.
- Rigorous, developed by qualified technical personnel.
- Permanent, detached from the electoral cycle.
- Integrated into the budget cycle as one more phase.
- Used as a feedback mechanism in decisions.

Therefore, budget and evaluation are two functions that must be integrated. On the one hand, there is no doubt that evaluation can greatly help the strategic orientation of the budget and thus achieve fiscal discipline itself. On the other hand, and in the opposite direction, this articulation helps evaluation to achieve its results and significantly improve its use.

This need for coordination is even more intense today, due to the fiscal crisis itself, the use of extra-budgetary funding mechanisms and the complexity of regulating essential public services.

In Spain there are several institutions that have evaluation functions and, even, there is a certain degree of juridification of the process. **Among the institutions with such functions are the external control bodies and the IGAE, but also others of a sectoral nature, such as ANECA or the Quality Agency of the National Health System.** Article 72 of the GBL states that *"the Ministry of Finance, in collaboration with the various expenditure management centres, shall promote and coordinate the continuous evaluation of expenditure policies in order to ensure that they achieve their strategic objectives and the socio-economic impact they seek"*. Even the modifications introduced by Law 39/2015 in the Government Law, have meant the introduction of the evaluation of the regulations in our system, at least from a formal point of view.

In spite of all this, the truth is that it can be said, without fear of doubt, that **the evaluation has not achieved in our country the development and practical application that would be desirable.** There are several reasons for this diagnosis. However, **we must emphasize that this is not a problem of technical capacity.** For years now, there has been a growing interest in evaluation in the academic sphere -

above all, in economics, but also in other social sciences, such as sociology - which has resulted in a good number of publications and theoretical and technical developments.

- In the first place, one can speak of a small extension of the evaluation. If we focus on the budget, it can be said that the main evaluations carried out are those imposed on us as a result of the receipt of Community funds. This, in turn, reflects a lack of political will and a culture of evaluation.

- Secondly and in relation to the above, there is a very weak institutionalisation of evaluation. Thus, it would be necessary to have a legal discipline of evaluation, which provides for its planning, the organic attribution of the function, its planning and that it be endowed with a systematic character within the budgetary cycle. Perhaps a good example of the lack of institutionalisation of evaluation is the recent conversion of the Agency into an institute with the rank of subdirectorato general.

- Thirdly, it is also true, as we have already pointed out, that the Spanish budget, as configured, is not prone to evaluation, for various reasons. On the one hand, because, as we have said, a large part of public expenditure is carried out outside the budget. On the other hand, since, as we also said, budgetary structures are not designed for evaluation.

- Fourthly, there is a problem of information availability. In order to evaluate it is necessary to have data and for the results of the evaluation to be correct the data must be reliable. If these two conditions, availability and reliability, are to be met, policies must be born to be evaluated and consistent data sources must exist. This does not always happen in Spain, to which is added the intrinsic difficulty of a decentralised country, an aspect that will be dealt with later.

- Fifthly, the shortcomings that we pointed out in the planning phase are transferred to the evaluation. Thus, the almost exclusive concern for the fulfilment of deficit objectives, the scarce validity of the principle of pluriannuality or the weak intersectoral programming result in an absence of explicit expenditure decisions. This implies, of course, the omission of prior or ex ante evaluations, which determines the scarce possibilities of carrying out subsequent evaluations. In order to evaluate something, in this case, public expenditure decisions, it is necessary to prepare, from the design stage, to be evaluated. If this does not happen in the programming phase itself, where strategic decisions are not made explicit, the whole process is practically impossible.

- Sixthly, little use can be made of evaluation results where they are carried out. These should feed back into the public expenditure process, making improvements in all phases of the cycle, from planning to budget execution. If this information is not used, or is used very sparingly, as is the case in Spain, the evaluation loses its meaning.

- In close connection with the above, and finally, there is ample room for improvement in the area of transparency. Thus, the publicity of evaluations and their results improves transparency and accountability to citizens, a culture that is not yet established in our country. However, there is some good practice that perhaps deserves to be extended. The Register for the Evaluation of Public Policies and Services of the Autonomous Community of Navarre (<http://evaluacionycalidad.navarra.es/RegistroCalidad/evaluacionPoliticasyServicios/index.xhtml>).

4th Proposal: *"Integrate evaluation into the budget cycle. This in turn requires the adoption of the following measures:*

- *Incorporate the evaluation function into the General Budget Law.*
- *Institutionalize evaluation, which implies developing the evaluation capacity of the management centers, strengthening the control institutions of efficiency and effectiveness, developing evaluation methodologies, intensifying the training of officials in matters of evaluation, requiring that programs of certain relevance present a results framework for evaluation and that they contain a budgetary allocation for this function.*
- *Incorporate evaluation results into both decision-making and accountability.*
- *Improve sources of information for evaluation*

Proposals for improvement have also been made in the area of evaluation:

- Firstly, this function must be incorporated into the GBL itself, which is necessary, but not sufficient, to **integrate evaluation into the budget cycle**. In addition, a strategy for strengthening and developing evaluation capacity in the management centres themselves and in the budget and control bodies (internal and external) would be necessary.
- Secondly, measures should be introduced to **institutionalise the evaluation**. These include, but are not limited to, the following
 - It is necessary to develop the capacity to evaluate public programmes in the management centres themselves (training, improvement of information systems and monitoring).
 - Efficiency and effectiveness control institutions in internal and external control bodies should be strengthened (training on programme evaluation, adaptation of information systems and databases, etc.).
 - A critical mass in evaluation should be created by developing a network of qualified external evaluators (universities, consultancies, professional experts).
 - It is also necessary to prepare evaluation methodologies (general and for each sector).

- Training in this area is very important and training programmes on the evaluation of public policies and programmes should be extended.
 - It is unavoidable, as we have already said, to incorporate in the legal framework the obligation to evaluate.
 - It is also essential that new public programmes or initiatives of certain relevance (strategic or budgetary) be required to present a results framework for the evaluation (measures or indicators of expected results, evaluation criteria, evaluation manager, evaluation schedule, publication and dissemination of the evaluation, etc.).
 - Finally, it also seems appropriate to introduce the obligation to allocate budgetary resources to each new programme, identifying in a differentiated way a special heading for its evaluation (e.g. reference to an explicit percentage of the programme's own budget).
- Thirdly, evaluation is of little use if its **results** are not used. These must be incorporated into **decision-making** - e.g., initiation of public action or reallocation of resources - as well as for the purpose of **demanding responsibility and accountability**, and to establish a **continuous process of learning and development of public programmes and policies**.
- Finally, the **sources of information for the evaluation should be improved**. It must be kept in mind that the most abundant and valuable information resides in the management centres. Evaluation centres need to be able to collaborate to access their databases, information systems and subject knowledge. To this end, it is essential that evaluation avoids the negative bias of traditional control systems (blame seeking) and is geared towards learning and programme development rather than accountability.

IV. INSTITUTIONAL ASPECTS

The Working Group has focused on the improvement of the Spanish institutional framework, in order to achieve a budget such as the one we have been advocating, with a better and greater orientation towards performance and the object of evaluation. Three aspects have been analysed:

- Firstly, and transversally, **formulas for improving the composition of the bodies responsible for the evaluation and control of the budget, with reinforcement of their independence**.
- Secondly, and specifically, which **bodies should undertake the tasks of control and evaluation from an internal point of view**.
- Finally, **the role of parliament in the budget cycle**.

The proposal for "**random roles**" presented within the Working Group has its origin in an academic document of one of its components

(<http://documentos.fedea.net/pubs/dt/2017/dt2017-03.pdf>). It attempts to **depoliticize the election of senior officials and is intended, in general, for all institutions of government, supervision or control to which it seeks to provide a certain degree of independence. It is therefore fully transferable to public expenditure assessment and control bodies.**

Its design is developed in three phases, always with the greatest transparency:

- The first is very simple: a **public convocation** of the high positions to be elected, to which the presented candidates have to fulfil a set of requirements.
- In the second phase, chance comes into play. An **Evaluation Commission** would be formed, with a not excessive number of members (say, five or seven), by lot among professionals, civil servants, university professors or prestigious experts, who agreed to be part of this group subject to lottery and, where appropriate, of the Commission. These people would be proposed by the parties with parliamentary representation and by relevant professional organisations or public and private centres, without obviously having presented themselves to the selection process and without their names being repeated in the various proposals. These proposals should establish in writing the reasons for the presentation of these persons.

A crucial point at this stage is that the parties, organizations or centers that propose the names among for the formation of the Evaluation Commission to be drawn, do so with a maximum number of people proposed by each entity that totals, in turn, a certain size of the group of people subject to the draw. The reason is that no proposer can count on a sufficiently high probability of controlling the Commission after the draw.

As a result of its work, the Commission should put forward a maximum of twice as many suitable candidates as the number of senior positions to be filled. If, for example, fifty candidates have been put forward to renew the twelve seats of Councillors of the Court of Audits, forty having been admitted, the Commission, with written assessments open to public scrutiny, would select a maximum of twenty-four candidates by majority, without giving preference to some over others and provided that this number is reached by sufficiently suitable persons.

- The third phase of the **election process** can be carried out in two alternative ways. The first is that, with majorities analogous to the current regulations, the political parties, within Parliament and after public hearing sessions, elect those who are to occupy high positions from among those proposed by the Evaluation Commission. If there are unacceptable delays in appointments due to the failure to reach agreements that allow the required parliamentary majorities, the following alternative would have to be followed.

The second alternative involves maintaining the mistrust currently held of politicians and would mean that parties could establish vetoes by appropriate majorities, with reasons given in writing and published, of up to a quarter (calculated by default, in whole numbers) of the persons proposed by the Commission. Clearly, the veto could only occur when there are at least two seats to be filled and four candidates proposed. After the possible vetoes, an impartial draw, among the candidates remaining from the Commission's proposal, would choose the people to fill the high positions. Following the example of the Court of Audits, if the evaluation committee proposes 24 candidates and the veto reaches a maximum of six people, the draw among the remaining 18 would give the 12 new Councillors.

Within the Working Group there is no consensus on which specific institution should assume the tasks of evaluation and control within the Administration. Thus, there are opinions in favour of the evaluation being undertaken by a specialised agency, similar to the former AEVAL, but there are also opinions in favour of the IGAE being the entity that concentrates the functions of evaluation and control. The use of AIReF in evaluation is also advocated, as it already has evaluation functions regarding the fulfillment of the mandate of art. 135 of the Constitution.

Opinions in favour of assigning the evaluation function to a body other than the IGAE emphasise the necessary independence of the institution responsible for it. On the contrary, other members of the Group emphasize that IGAE enjoys a similar level of independence to that of AIReF and, in addition, has the necessary information to carry out the evaluation tasks.

In any case, it seems that **there is a consensus on these two needs, regardless of which institution is responsible for the evaluation.** On the one hand, it must have a certain degree of **independence** from the rest of the Administration. On the other hand, it must have access to the data needed to carry out evaluations.

Within the Group, there are also those who advocate **a decentralized evaluation model, under the coordination of an institution or department responsible for the overall functioning of the system, but who did not carry out evaluations.** From this perspective, it is argued that the management centres themselves are the most qualified and best placed to evaluate their programmes. Thus, the function of the central body, whichever one is chosen, should not be oriented towards the direction and execution of evaluations, but towards the development of a common normative and conceptual framework for evaluation, the construction of a general methodology, the training of officials and the establishment of systems for monitoring the quality of evaluations.

From another perspective, the **existence of multiple instances within the Group that carry out evaluation and control tasks with a low degree of coordination** has been highlighted. The process of decentralization and deconcentration of the Spanish Administration determines that there are multiple instances of control and evaluation.

For example, the Directorate General of Community Funds is responsible for evaluating these funds and acts autonomously with respect to other institutions with competence in this area. For this reason, the need to establish stable formulas for collaboration and coordination between the control bodies is highlighted. These ideas will be developed later, when we analyse the territorial aspects.

As far as the role of Parliament is concerned, the Group has highlighted the unique nature of the Law approving the budgets. This character implies a preponderance of the Executive in the matter, which is reflected in its exclusive initiative, as well as in the limitations of Parliament's right of amendment. In addition, the discussion in Parliament is political, not technical.

In accordance with the above ideas, Parliament has three tools at its disposal in its function of approving and controlling the budget: interpellations, the very limited right of amendment and the use of information provided by the Court of Audits and AIReF.

The situation in **comparative Law** is not the same as in Spain. At the opposite end of the spectrum is the **United States Congress**, which has its own budget office. But it is necessary to know that this institution has more than 600 people, divided into 6 sections, the most important of which are studies of multi-annual and sectoral programmes. It seems, therefore, an institution little transferable to the Spanish case, where the Committee on Budgets of the Congress has only one state attorney, at present.

In the **United Kingdom** there are two legislative support institutions in this area. On the one hand, the so-called Public Accounts Committee, made up of 16 people in each legislature, but with a very political and non-technical character. On the other hand, the National Audit Office, a permanent body, at the service of Congress and with greater operability.

In other countries, such as **Finland**, the audit system depends on the parliament, with the legislature therefore assuming a preponderant role in budgetary control.

In view of these experiences and considering the structure, functions and means of the Spanish Parliament, it seems that the most reasonable thing to do is to **take advantage of the existing institutions. And this means strengthening the control function of the Court of Audits, which is in need of a profound reform, both with regard to the election of its members and with regard to its functions.**

In particular, the Court should not only carry out its current function of external ex post control, but should also provide Parliament, within a reasonable period, with information on budget implementation, which has traditionally been forgotten. Thus, the intervention of the legislature is practically limited to the initial adoption of the budget, but it does not perform any function of control of its execution. This is largely due to the lack of information, which should be provided by the Court of Audits. This perhaps implies relieving this body of some of its current functions, such as jurisdictional functions, which could be assumed by the contentious-administrative

judicial bodies. In addition, the AIREF is already facilitating this parliamentary work, albeit limited by its object, centred on the fulfilment of the deficit objective.

5th Proposal: *"Introduce reforms in the evaluation and control bodies. Firstly, their independence must be strengthened. Second, it is desirable that a body be given the role of governing the evaluation system, through the formulation of principles, the development of methodologies, the provision of training and the monitoring of the quality of evaluations. Finally, Parliament's role in evaluation and control must be strengthened. This in turn means improving the Court of Audits' evaluation capacity by eliminating its judicial role".*

The Group's proposals for improvements in this area can be summarised as follows:

- ✓ Firstly, it seems appropriate **to improve the system for appointing monitoring and evaluation bodies**, a problem common to that of many other bodies in our institutional system. In general, there is agreement that the processes should be more transparent, with pre-established criteria and even, by introducing a certain dose of chance, in order to safeguard their independence. However, independence is not only achieved by improving the selection method, but it is also necessary to pay attention to other aspects, such as the duration of the position, the existence or not of freedom of choice of the programmes to be evaluated or the financing of the body itself.
- ✓ Second, **while there is no consensus as to which body should be given the lead role in the evaluation system, there is consensus, at least, on the need for such a body to exist.** Such a central body is conceived not so much as an evaluator but as an institution with the function of harmonizing evaluations through the formulation of principles, the creation of common methodologies, the provision of training and the monitoring of the quality of evaluations.
- ✓ Finally, there is also consensus on **strengthening the role of parliament in the evaluation and oversight function.** This in turn implies improving the evaluation capacity of the Court of Audits, while eliminating its jurisdictional function. The Court should provide Parliament with evaluative information, which should be the basis for discussion in parliamentary committees.

V. TERRITORIAL ASPECTS

During the last four decades, the Spanish Public Administration has undergone a process of decentralization so relevant that has led to that of the 41.02% that in 2017 has represented public expenditure on GDP in Spain, approximately 9.26% corresponds to the State, 13.58% to the Autonomous Communities, 4.71% to the Local Entities and 14.21% to Social Security.

If we deduct from the percentage attributed to the State, the compulsory expenditure until we reach the "expenditure of the ministries", this percentage is reduced below 4%, configuring a scarce margin of maneuver of the State budgetary policy. In short, there has been a significant decentralisation of expenditure from the consolidated State budget to the Autonomous Communities, as a result of the services transferred.

Therefore, **any proposal aimed at improving the quality of public spending in Spain cannot be limited to the state level.** If we were to do so, we would be reducing the effectiveness of the reform to a very small real percentage of expenditure. This idea is reinforced if we look at the issue from a qualitative point of view, since the Autonomous Communities provide practically all the services of the Welfare State.

However, as we pointed out when dealing with the planning phase, the current situation does not make it possible to achieve these objectives, since there is not even harmonisation of budgetary structures.

The above observation leads to the need for the new budgetary regulations that we are proposing, aimed at introducing a PbB, to be common to all levels of government in Spain. We do not mean that a PbB cannot be implemented at the central level of the General State Administration. Of course it is possible, but, as we saw in the previous section, this implies leaving out of the proposal most of the expenditure directly aimed at the citizen (e.g., education, health and social services). **That is why the Group defends, for the most part, a common regulation of the future PbB in Spain.**

This objective can be achieved in two ways, as far as the Autonomous Communities are concerned:

- On the one hand, attributing basic character to the essential aspects of the GBL. This is the case in tax matters, where Article 1 of the GBL establishes that *"this law establishes the principles and general legal rules of the Spanish tax system and shall be applicable to all Tax Administrations by virtue of and with the scope derived from Article 149.1.1.ª, 8.ª, 14.ª and 18.ª of the Constitution"*. This is a provision that has not posed any problem in practice and has determined that both Autonomous Communities and Local Bodies apply all the provisions of the GBL.
- On the other hand, one can also think of raising the rank in the case of the Autonomous Communities, including in the LOFCA (Financing Law for Autonomous Communities) those essential aspects of the new budgetary system. In the case of Local Entities, this regulation would be transferred to the TR-LRHL. Alternatively, one could also consider the approval of a General Organic Budgetary Law, which would integrate, for all Administrations, the provisions to which we refer plus those currently regulated in the Organic Budgetary Stability Law.

In any case, **it seems that there is no constitutional problem to tackle this task, since the jurisdictional titles cited by Art. 1 of the GBL for the case of tax regulation, serve perfectly for the budgetary one.**

The task, then, is to specify the **normative aspects whose harmonisation is required by the new budgetary model.** In our opinion, and in accordance with the ideas we have set out, these essential aspects are as follows:

- **Regulation of the budget planning phase**

This phase should establish the obligatory nature of the micro-programming to which we referred to the principle -together with the existing one-, with ex ante evaluations, explanation of the objectives to be achieved and the means to achieve them. Furthermore, these forecasts should not be limited to a single financial year, but this programming should be extended to the whole period of the multiannual budgetary scenario. Finally, for reasons of transparency, the obligation must be established to make budget programming public, understood in this way.

- **The Budget model**

The introduction of a PbB should be obligatory for all Spanish Administrations, whose budgets should also have a homogeneous structure. Firstly, the information derived from the budget should be improved for all Administrations, bringing it closer to the National Accounting system. Secondly, the structure of the budget should be defined, making it pivot on the programmes, defining in a common way, at least, the areas of expenditure for the whole country. Finally, the very structure of the budgetary programme must also be common, containing the elements indicated in section II.4 above.

- **The evaluation**

Evaluation should be incorporated as a further phase of the budget cycle, to be carried out in parallel with the planning, execution and control of the budget. It is therefore a question of introducing the obligatory nature of ex ante, during and ex post obligations. All this, with the extension determined for each year by the National Evaluation Plan that we propose and that we will deal with in the following section. It would also be advisable for this regulation to establish the types of evaluation to be carried out, as well as a catalogue of evaluation techniques, using already standardised methodologies. It is not a question of obliging the use of any specific technique, but of defining which ones are admissible in order to guarantee the reliability of the results. Then, each Administration, in each specific case, will choose, from the catalogue, the one it considers most convenient. Finally, for reasons of transparency, the results of the evaluations carried out must be made public. Initiatives such as the public register of evaluations in Navarre may even be considered at a national level, entrusting its management to the coordinating body analysed below.

In addition to the normative level, it should not be forgotten that proper management of the public expenditure system also requires **coordination at the institutional level**. First and foremost, in the case of relations between different territorial administrations and in a scenario of a multiparty political system, **it is especially necessary to formulate and make effective a principle of institutional loyalty**. Thus, it is easy to think that in the coming years there will be Autonomous Communities with different governments, with no absolute majorities at the national level either. In this situation, all Administrations should act in a coordinated manner and act among themselves under the principle of loyalty.

At the same time, it can also be seen that the division of powers designed by the Spanish Constitution -and its statutory development- is no longer clear, giving rise, on many occasions, to duplication of expenditure and the attribution of powers to levels of government that are not always the most optimal. The option of a constitutional reform is not an easy one, as we know. But through institutional coordination a good part of the problems pointed out can be remedied. Pages back we have already alluded to some virtuous example, such as centralized purchases of products in the field of health, agreed by the Autonomous Communities.

The foregoing reasons advocate **taking advantage of the experience of the Fiscal and Financial Policy Council, a body that has already been entrusted with the functions of coordinating financial relations between the State and the Autonomous Communities, in order to guarantee the institutional coordination. Within it, a permanent Commission could be created with the aim of continuously improving the quality of public expenditure in Spain.**

The decisions of this Commission, representing the State and the Communities, should be **adopted by majority vote and serve as a factor introducing a certain degree of homogenisation in different areas of an eminently technical nature**. Thus, it may be considered to agree on everything from the necessary requirements for access to the intervention bodies of the Administrations, to the technical criteria for carrying out audits and controls. In the area of evaluation, this Commission should annually approve a **National Evaluation Plan**, the execution of which would correspond to each Administration in accordance with the basic regulations referred to above. It should also assume the management and publicity of the information derived from the evaluation system, guaranteeing transparency and facilitating the exchange of good practices.

The Commission should also take the initiative in **proposing legislative reforms to the basic regulations to which we referred earlier, also on technical issues such as budgetary structures, or better yet at the planning, evaluation and control stage.**

In addition, the Commission could also **take more political expenditure decisions, such as those relating to the centralisation of certain purchases or the elimination of duplication and inefficiency**. The participation of all the Communities in this body

guarantees that we would not be faced with decisions imposed by the State but agreed by common accord.

The assumption by the Autonomous Communities of the competences transferred has transferred very defined characters to the state of expenditure of their budgets, of which we can highlight the following:

- In the first place, and as a general feature, the assumed competencies are configured as services with an intensive consumption of current resources, which have turned the weight of their public expenditure towards current expenditure.
- Secondly, the political debate has come closer to the citizens. Concrete government actions in matters of such social importance as the opening of health, educational and social centres, libraries, courts or judicial offices, sports facilities or new metro lines have been incorporated into government programmes, in many cases involving the assumption of higher levels of current expenditure in the long term.
- Thirdly, the social character, basic and essential for our quality of life, inalienable in the terms we understand it today in Spain, of the services provided by the Autonomous Communities has introduced an even greater downward rigidity in the evolution of public spending. Social expenditure, understood as that allocated to education, health, social services, immigration, culture and justice, represents a high percentage of total expenditure in practically all the Autonomous Communities.

This downward rigidity in expenditure has coexisted with a system of autonomous financing based on percentages of income tax collection, VAT and excise taxes, as well as taxes ceded and own, plus the Funds that seek to compensate for income differences or differences with respect to the average, but in any case, evolve in accordance with the ITE. The coexistence of elastic income with respect to GDP with an extraordinarily rigid level of expenditure on the decline has made it difficult to maintain numerous public services. In fact, the need to adjust the deficit has prioritised the accelerated reduction of expenditure on items that can be managed, regardless of whether it was the optimum decision, since in many cases it was the only one possible.

However, it is also true that **the Communities have not exercised a high degree of fiscal co-responsibility, as they have used their regulatory powers, in most cases, to reduce or even eliminate the tax burden arising from property taxes.**

A new financing system is currently pending negotiation. What are the main features should be included in this system?

It should be noted that since the beginning of the last decade, the Communities have never presented balance. In addition, the recent Local reform, which transfers new competences in the health, educational and social fields to the Communities, has deferred its actual entry into force to the approval of a new financing system.

Consequently, the definition of the new financing system will condition the future evolution of autonomous expenditure, especially if we consider what was pointed out in the first session of this working group on budgetary planning, so it is worth stopping at some aspects of this system that may be relevant.

The financial effort that each autonomous administration makes in the exercise of its functions is frequently discussed and valued. Various approaches to the issue can be made, starting from the territorial analysis of the exercise of the competences assumed as well as the assigned financing.

Once the principle of solidarity has been introduced into the financing system, the regional public expenditure/GDP indicator loses effectiveness in order to show the budgetary effort made by the Autonomous Administrations, with the relationship between the expenditure on each service or activity, on the total expenditure of the budget, as well as per capita expenditure, or the theoretical cost of the service, acquiring significance, in accordance with the factual conditions. The different per capita financing and the criteria that determine it have historically been considered, and although they have been subjected to numerous studies, and to attempts at correction by means of specific Funds, such as competitiveness, the successive negotiations of the financing systems have started from the previous status quo, without evaluating the cost of each of the services.

On the other hand, the effect of the financial activity of the Autonomous Communities reflected in fiscal policy, on the aggregate demand of each territory, depends not only on the budget balance, but rather on the composition of their sources of financing and this factor must be taken into account in setting stability objectives.

The existence of exceptions to the general system of financing creates asymmetries by not taking account of the cost in the overall state of the services transferred to the Autonomous Communities under the provincial system.

The graduation of solidarity, ordinality and responsibility in the system leads to radically different resource allocations among the Autonomous Communities, which define public expenditure management in a differentiated manner.

Without leaving the autonomous financing system, its settlement system has a **special incidence within the definition of liquidation system**. For each financial year, the Ministry of Finance informs each Autonomous Administration of the payments on account for each of the tax figures that make up the system. Two years after the accrual period, the State Administration settles each of the taxes and funds. This system, while providing significant security in the budgetary execution of income for the year, eliminates the direct effect of the economic situation on a large part of the revenue budget of the Autonomous Communities. In reality, the consolidated tax system, in its joint state-autonomy configuration, maintains the automatic stabilisers but the communities receive the evolution of the economy, as far as the income

managed by the State is concerned, with a delay that can be estimated between 12 and 24 months.

This circumstance is not negligible if we take into account that the State Administration determines deliveries on account in a prudent manner, resulting in a settlement almost always exceeding the theoretical 2%, even in the case of granting advances on account, so that the successive notifications must include, rather than the variations derived from future inferences, the certainties of the previous financial year, sending an absolutely contradictory message to the Autonomous Administrations. Past experience has shown that forecasting errors in the economic situation have been transformed into optimistic down payments that were subsequently compensated in settlements in periods of recession. And it seems that the expenditure rule is not sufficient to correct this effect.

Finally, there are those who propose, within the Working Group but without majority agreement, that the new financing system should introduce limitations on harmful tax competition between the Communities, with the fixing of tax bases in the taxes assigned.

As far as Local Bodies are concerned, during the crisis they have demonstrated a greater soundness of their financing system and a more effective response to budgetary stability regulations, presenting continued surpluses since 2012, despite the existence of a City Council with significant problems. Although the local reform of 2015 has meant a change of trend in the assumption of improper powers, has not yet implemented the transfer of functions planned, in favor of the Communities.

The best performance in terms of deficit corresponds to a very positive behavior with respect to debt reduction, concentrating the most important problems in municipalities between 75,000 and 250,000 inhabitants.

It is necessary to continue with the line of efficiency analysis of the cost of services, in homogeneous terms. In addition, many personifications coexist, especially consortiums and associations, necessary for the provision of services, especially in small municipalities, which show that in these municipalities, in addition to a problem of efficiency, there is a problem of efficiency, especially in areas with greater depopulation, which has been channelled into the creation of numerous entities. The question is whether improving the management of local expenditure, both in terms of effectiveness and efficiency, requires institutional improvement: integration of municipalities, integration of town councils, or a greater role for councils or counties.

6th Proposal: *"The budget reform we propose must reach all levels of government. To this end, the General Budgetary Law must be attributed the character of basic legislation, in its essential aspects. This implies a common regulation of the planning phase, the budget model and the evaluation function".*

From a territorial point of view and without attempting to achieve homogeneity incompatible with our State model, **the budgetary reform process should reach all levels of government. The process should be articulated with the participation and coordination of all the Administrations involved.**

Secondly, and at the service of the previous coordination, **the GBL should be articulated as a basic legislation for the whole country, at least in its essential aspects.** This implies a common regulation of the planning phase, the budget model and the evaluation function. This basic regulation would not, of course, exhaust the regulation of each of these matters, but would be limited to establishing a common architecture for the system, which would be adapted in each territorial Administration.

7.- FIDE:

The [FIDE Foundation](#) is a legal-economic think-tank that today constitutes a **permanent meeting place** for professionals of the highest level or with a long professional trajectory, who develop their activity in **companies, professional law firms** and the **Public Administration**.

Fide has set up a series of [working groups](#) whose purpose is to carry out a **continuous and profound reflection** on some of the major issues that we have considered that, due to their **urgency, need for reform or capacity for improvement**, deserve to be the object of special reflection by a group of experts. Some have already published their first conclusions, have made concrete normative proposals or have advanced an initial analysis of the situation. Others will do so throughout the year. But there is no doubt that in each group we have an **essential point of reference**. The composition of each group, with **professionals with extensive experience and in-depth knowledge** of each subject, allows us to tackle all those issues that we collectively believe merit reflection. In other cases, **the debate itself reveals the complexity and distance of the positions** and, therefore, the value of the **work is reflected in specific summaries on the issues addressed**. In any case, any professional involved in the evolution, development, application or improvement of regulation and especially of economic regulation must be familiar with these works and contribute to their development, knowledge and dissemination.

The members of these working groups are **members of Fide** and regular attendees to Fide sessions and forums, which are closely linked to the issues addressed in the respective areas of analysis.