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CHAPTER 11

Budget Reforms in Spain – Beyond Budget Stability to Substantive Performance

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Spanish governments started the reform of the budgetary process during the first half of the 1980s with the introduction of program budgeting. But internal budgetary practices did not change significantly. The budgetary process remains under the control of the Ministry of Economy and Finance (Ministerio de Economía y Hacienda or MEH) – the agency in charge of controlling public expenditure, setting taxes, managing borrowing and setting overall economic and fiscal policy. This main central budget actor did not pursue a policy of broad managerial reform or change the system to make it more managerial or business like, as some other OECD countries did (OECD 2001).

However, Spain has been a success in terms of budget stability – comprising of the imposition of fiscal discipline, the attainment of budget surpluses and the achievement of debt reduction. All this has been achieved in a decentralized system of government where more than 50 percent of public spending depends on regional and local governments. In a rather traditional, pragmatic, incremental and bureaucratic fashion, Spanish governments, including both the Socialist and the Popular Parties, progressively reduced the deficit until the year 2005, when they achieved the first of a series of consecutive surpluses maintained over the past three years (MEH 2008). So, budget stability arrived, annual budget outcomes improved, documentation partially changed, but Spain did not change the budget decision-making process nor embrace with enthusiasm reforms to deliver meaningful information presented together with the budget.

From the 1980s Spain's disaggregated public sector experienced profound transformations in public finance – especially in the volume and composition of revenue and spending. However, it was external pressure which was critical in forcing Spanish governments to make serious efforts to achieve fiscal consolidation after 1994. In particular, Spain's agreement to join the 'Euro' and abide by the conditions of the

Economic and Monetary union (EMU), empowered governments to impose and maintain fiscal discipline. Successive Ministers of Economy and Finance, representing Socialist and Popular party governments, were proud to leave public finances in better shape than they had found them on reaching power. The European pressure justified a policy of top-down control over the budgetary process, but more in the area of budget stability and aggregate public spending than in the areas of spending management or the re-distribution of resources. In its macro-economic policy, Spain approved tough fiscal rules in 2001 and 2006 (see Ley 2001; and Ley 2006a), which can be interpreted as the national version of the European Stability and Growth Pact. With regard to the micro-management of resources, Spain also passed two pieces of legislation with the *Budget Law* of 2003 (Ley 2003) and the *Agencies Law* of 1996 (Ley 2006b), but their impact on public administration has not yet been so profound.

This chapter presents, in the first place, an overview of the Spanish trajectory in budgetary reform. It considers initiatives taken in the area of fiscal discipline and stability, and reports changes to budget processes and resource management, particularly with the gradual adoption of a performance budget framework. Second, it provides an analysis of changes introduced in budget documentation and in the budget cycle, including changes in the relations between the MEH and spending ministries. Budget reform in sub-central governments has not been considered. Finally, discussion turns to an evaluation of the main outcomes of the reforms attempted, including the use of an output-outcomes framework and the extent to which a performance-oriented perspective is present in Spain's policy-making.

Spain's Trajectory of Budgetary Reform

The Spanish trajectory in budgetary reform has been gradual and adaptive since there were no big bursts of change or innovation. Spain followed the path of earlier reforms in the US and in other advanced European countries with a partial introduction of program budgeting in the 1980s. More recently, Spain has adapted to the requirements of the European EMU by declaring its intentions to eliminate annual budget deficits. It has also begun discussions to adopt a form of output-outcome management as advocated by the OECD, the IMF and other international institutions. Hence, Spain is no new-comer to budgetary reforms. It has followed a long path of reform from the first

attempts to rationalize spending decisions until the recent reforms to ground budgetary policy in a wider European framework while governing a decentralized system which is all but in name a federal state.

One can distinguish at least four distinct, although somehow overlapping, phases of budget reform:

- a phase of *improved planning techniques and technical improvements* from 1976 to 1979;
- a *program budgeting* phase from 1984 to 1994;
- a *belief in the zero deficit* phase over the period from 1994 to 2006 leading to the enactment of *budget stability laws*; and
- a recent phase of a *return to the performance management philosophy* from 2003 to 2008.

These four phases are examined in turn.

Improved Planning and Technical Improvements 1976 – 1979

Spain did not introduce any of the initiatives that were taking place during the 1960s in the main European countries with regard to the review of public spending (Gunther 1980). The main concern of the post-Franco regime before the adoption of the democratic Constitution in 1978 was with fiscal growth and with the main policy instrument being major ‘development plans’. Those plans not only committed substantial resources to projects, but also induced the application of methodologies for the *ex ante* assessment of public investment and the cost-benefit analysis of projects, particularly in areas of public works and infrastructures.

The introduction of these planning techniques was limited in scope to economic projects. It was not applied to wider social programs (Ruiz-Huerta *et al.* 2007). The innovations of this phase can hardly be considered as major budgeting reforms. Furthermore, there was almost no correspondence between cost estimates obtained in the process of evaluating projects and final executed budget allocations. There was also no coherent policy to improve spending management, nor was there the institutional

capacity to monitor and manage the budgeting cycle on the basis of better information on outputs and effectiveness.

Program Budgeting 1984-1994

The first Socialist government after the democratic transition came to office in 1982 with the political promise of change. While much of its big spending plans were conditioned by the severity of the industrial crisis in Spain, the charismatic President Felipe González (1982-96), put great emphasis on reforming public administration and making the machinery of government work better.

Fascinated by the US and French experience with program budgeting, the MEH invited some spending departments to produce a new budget format based on programs. In 1984, the Council of Ministers officially required all departments and public organizations to present their expenditures according to program classifications. The order from the ministry established basic rules on setting objectives and devising indicators for every program. Since then expenditure information in the Spanish budget has been presented according to three basic criteria: by economic function, by organizational allocations and by program structures.

The aspiration of the then government was to add rationality to a budgetary process in which decisions were often taken on the basis of incomplete information. Reforms were introduced from a results-oriented perspective, intending to link funding decisions with results, effectiveness or impact. However, the program reforms did not prove useful in budgetary coordination, or in providing a more coherent view of public spending across all areas of government. The focus on programs did not improve the motivations or the actions of the various spending departments or agencies. The broad definition of programs was often criticized (Zapico 1989) and public administrators had trouble in setting objectives, finding adequate and relevant indicators and, in general, connecting their activities with social impacts or the overall statutory strategic plan of the government. As well, for presentational purposes ministries and agencies grouped their programs into one multi-year program that included long-term information on the activities of public enterprises and other public entities with a functional dependency on the ministries. It was hard to see demonstrated performance. But within this phase we

also saw the introduction of intense computerization of budget administration within the public sector and of change in auditing techniques to make spending controls less obstructive while enabling auditors to look into performance activity beyond the control of compliance with legal requirements (MEH1983; and 1985).

The volume of resources managed by the public sector increased considerably during the second half of the 1980s through to the beginning of the 1990s until the economic crisis of 1993 hit the Spanish state. Previous assumptions about the levels of economic growth were overly optimistic and decentralized public administrations, particularly the Autonomous Communities, had problems in meeting the increased demands for public services in the areas of education, health and public infrastructure. The inevitable result increased deficits and added to the growing burden of public debt at the regional and local levels.

Believing in the Zero Deficit and Budget Stability Laws 1994-2006

The reform emphasis on results lost some ground in the mid-1990s because the utility of program budgeting was questioned and because political attention now turned toward the European EMU integration process. Spain began a period of continuous growth from 1994 until 2008 which provided robust increases in revenues. As in the Australian and New Zealand cases included in this book, the combination of increased tax receipts and expenditure discipline made it possible to produce an almost balanced budget by the year 2000 and to achieve annual budgetary surpluses from 2005 to 2007.

The accomplishment of budgetary surpluses encouraged the government to formalize balanced budgets through the imposition of budget stability laws. While the Spanish budget remains authorized on an annual basis, since 1998 the public sector has been expected to work with long-term economic scenarios and multi-year programming as the main reference for the preparation of the annual budget. Then in 2001 the Spanish parliament passed legislation on budgetary stability. This first law was subsequently amended in 2006 after it was considered that the original definition of ‘stability’ was excessively rigid. Moreover, it was also felt that autonomous communities had to participate in the discussion of the general budget framework as they are also responsible of the final budgetary results of the whole country.

The amended stability law of 2006 linked the principle of budget stability to the economic cycle. It stipulated the obligation for governments to budget for a surplus when economic circumstances were favorable, while allowing the possibility of incurring in a deficit during the low phases of the economic cycle with the aim of achieving an average position of equilibrium (Iglesias 2007). The Council of Ministers, on the basis of the reports of the MEH, was responsible for determining budgetary goals and the upper and lower stability limits for a three year period. The proposed budget of the central government was then presented to the Fiscal and Financial Policy Council where the autonomous communities met and deliberated with the central government. Once finalized, the proposed budget thereafter needed to be approved by both chambers of the parliament.

The stability legislation introduced in 2001 and amended in 2006 includes a few other mechanisms that make the system less vulnerable and more coherent with the decentralized nature of the Spanish state. Most noticeably:

1. There is a combined limit of a 1 percent deficit of GDP for the three levels of jurisdiction with the following maximum relative composition: not more than 0.20 percent for the central government; 0.75 percent for the autonomous communities; and 0.05 percent for the local entities.
2. There is a possibility of an additional deficit to spend on investments that may help to increase the productivity of the system during the low phase of the economic cycle. This ‘investment deficit’ also has an upper limit of 0.5 percent of GDP for all three administrations made up of 0.20 percent for the central government; 0.25 percent for the autonomous communities; and 0.05 percent for local governments. Together with the latitude for the general deficit, this brings the total deficit to a maximum of 1.5 percent of GDP which is still only half of the limit established by European EMU rules.
3. The budget has to include the information necessary to calculate the deficit or surplus according to the European system of national and regional accounts.

4. In order to avoid deviations during budget execution, the government has to include in the annual budget a 2 percent contingency fund or reserve which may only be spent on emergency needs such as catastrophes or extraordinary events that could not have been forecast when the budget was approved.
5. The stability law does not permit the government to use the surplus from the Social Security funds to compensate the deficit of the state. Moreover, each regional or local government is also treated as an independent entity and it is not possible to compensate individual deficits among themselves.
6. The central government can issue warnings to other administrations if there is a serious risk of them not complying with the overall stability objectives.

One of the main questions to be asked is to what extent those laws were necessary since the government had already achieved historic successes in the management of public finance without them. The answer to that question may be that, in the first place, the Spanish government accepted from the very beginning of the negotiations of the various European fiscal treaties that stringent rules on fiscal discipline were absolutely necessary to avoid falling into deficit and debt. Second, President José M. Aznar (1996-2004) and his Popular Party announced they intended to be ‘the first in the class’ of Europe in fiscal policy and set ‘the zero deficit’ as one of their main goals. This objective was later made more flexible but not abandoned by the Socialists who returned to government in 2004, since they also wanted Spain to be perceived as a ‘good European’. In the third place, both the Popular and Socialist governments understood that establishing fiscal rules in statutory law approved by the parliament was the best way to impose budget discipline across the system and avoid the tendency of present or future political authorities resorting to uncontrolled public spending.

The stability reforms were the eventual outcome of a long process of progressive consolidation occurring over more than a decade in the context of sustained economic growth. Given the onset of the financial crisis that arose in 2008, the efficacy of such laws is yet to be tested during turbulent times. Optimists claim they are here to stay given there is widespread political consensus on the main goals. Pessimists will insist governments will respond expediently and cannot maintain budgetary stringency against

external shocks. Certainly, the stability laws have made budgetary negotiations easier for the MEH (Iglesias and Morano 2008). The imposition of caps on spending departments allowed the MEH to contain the initial budgetary demands of ministries and agencies. Moreover, the central government was able to impose European stability and accounting rules on autonomous communities and make regional and local administrations comply with fiscal rules in the general context of Spanish public finances.

A Return to Performance Management 2003-2008

Two initiatives in 2003 and 2006 indicate a certain philosophical return to performance management that had been inaugurated in the 1980s with program budgeting. Steps were taken to try to overcome the earlier informational shortcomings of the initial trial with program structures. For instance, the *General Budget Law* was reformed in 2003 to emphasize budgeting by objectives and output-outcome measures and including new rules and principles for micro-management (MEH 2003; and 2006; Espadas 2005). After this reform, it was expected that a relatively sophisticated system would be developed on the basis of (i) setting objectives for multi-year programs; (ii) a reliance on results-oriented management; (iii) a close alignment between objectives and expenditures; (iv) improved performance reporting and the preparation of management reports with detailed information on expenditures; and (v) a broad evaluation of results and outcomes. The same reform introduced an evaluation procedure for all public policies. The MEH initially played a catalytic role in the coordination of the evaluation effort of program spending, although a new specialist agency was to be created with this specific mission.

The second initiative in 2006 opened the way for greater agencification with the passing of the *State Agencies Law*. There were already various types of entities with different degrees of managerial autonomy, some of them with the term ‘agency’ in their name. But from this time, the *State Agencies Law* opened up the possibility of creating up to eleven agencies with the idea of granting more managerial autonomy in exchange for control with four year contracts, accountability by results, external auditing and the responsibility of directors for the results achieved. The first agency created in 2007 was the State Agency for the Evaluation of Public Policies and the Quality of Public

Services under the authority of the Minister of Public Administrations (CECAEE 2004). Between 2007 and 2008, six other units of the central administration were transformed into agencies in the areas of official government publishing, research, international cooperation and development, meteorology, air traffic control and security, and anti-doping in sport.

From a budgetary perspective, agencies now have greater flexibility since managers negotiate directly with the MEH over their general funding levels and have full discretion to use the resources except in the area of personnel. Agencies will be able to sell a relevant share of their services or encourage sponsors to assist fund their activities. Agencies are able to change the management culture of the organization to develop a deeper sense of responsibility among public managers for the resources they use and the results they achieve. The MEH has to date been nervous about the establishment of agencies because of uncertainties on the revenue side and the loss of control over spending. According to various interviews made at the MEH, budget officials believe the development of agencies should be reserved only for those areas where, by the nature of the services provided, there is a greater chance of improving the quality of management and of services for citizens.

Budgetary Documentation Reflects the Reform Interests of Government

The structure and format of the budget papers have not changed much since the mid 1980s, but there have been considerable changes in the way information is presented. Some changes sought to adapt the Spanish national accounts to European public standards and norms. Other changes attempted to offer greater transparency to the public making the budget more readable and accessible. Each year various versions of the budget are posted in the MEH website offering varying degrees of detail. However, the annual budget continues to be organized on the basis of three traditional classifications. Both the government and the parliament discuss the budget on the basis of the organizational allocations and the economic classification of revenues and expenditures. The budget also presents information on the basis of expenditure 'areas', 'policies' and 'programs' which still are very much determined by the organizational structure of the government.

For example, in the case of the Ministry of External Affairs, the programs identified are ‘General Administration’ (sic!), ‘Diplomatic Action’, ‘Cooperation for Development’, and the ‘Promotion of Spanish Culture Abroad’ which correspond with the main operational divisions of the ministry. Two budget documentation series – one with more detail, the other for presentation to the parliament – provide a narrative explanation of the policies of the ministry and each of the main divisions, including some data on expenditure effort but little information on past performance. In the case of the program ‘Cooperation for Development’ the narrative section of the 2008 Budget emphasizes the goal of progressing towards spending 0.7 percent of GDP on external aid but does not give details on activities or outcomes of the development division in the past. To find such information we need to look elsewhere in the budget documentation where ministries are presented according to their basic action plans. In other cases, like in Public Works or Transportation, the budget provides a good picture of activity and output since it includes all the financial information on investment plans or transportation subsidies – with detailed statements for each project or line of action – but again there is little information on the existing policy rationale or its intended effects which are seen as the responsibility of the ministry.

Budget documentation also reports the government’s fiscal and economic policy intentions. It is in this area that the most significant changes in documentation took place given the external and internal pressure to make European governments accountable for their fiscal and economic policies. The 2006 stability law reform regulated with detail the economic reports that the state, regional and local governments have to produce with regard to budget and economic cycles. The main responsibility for these reports lies with the MEH, which sets the overall budget objectives on the basis of the economic performance of the country. The report of the MEH has to take into account the diagnostics of the European Central Bank, the European Commission, the Central Bank of Spain, and the National Institute of Statistics. The legislation also stipulated the range of economic and social variables and the kinds of analysis that these reports have to include.

The autonomous communities and local governments also participate in the deliberative processes involved in setting budgetary objectives for the cycle. They produce reports to, and for consideration by, the Fiscal and Financial Policy Council and the Local

Administration Council – where these sub-national governments meet with the central government to seek approval for their financial strategies. Such reports are mandatory and they are passed on to the national parliament with the rest of the government documentation.

Spending ministries are also required to produce budgetary documentation. They are supposed to group the programs delivered by their operational divisions, including those performed by agencies, corporations or public enterprises with a functional dependency on the ministry. The multi-year action program of each ministry is the basic document where the main priorities, policies and programs in each area are presented.

A different kind of new documentation has also been introduced by the internal auditing unit within the MEH. The General Controller of Central Government (IGAE) has been active in producing documents that were thought to facilitate the task of managers with regard to the follow up of programs, their objectives and performance. This is one of the instances where the MEH has assumed the role of an agent of change in the area of management beyond the organization frontiers of the ministry.

The Budget Process – Institutional Players and the Development of a Performance Perspective

Each year the budget preparation processes starts in January when the MEH prepares a three year budget outline and draft expenditure ceilings for the following year, and submits these to the Council of Ministers. The MEH then draws up the ‘Multi-year Budgetary Scenario’ in accordance with the various budget laws of 2001, 2003 and 2006. Then the Directorate General of Budget (DGP) in collaboration with the budget offices of spending ministries and agencies prepares long-term projections within the scenario for each ministry and submits them to the DGP. The DGP adds revenue projections and sends them to the MEH which then presents the full scenario to the Council of Ministers. The MEH then prepares the draft budget along with its spending recommendations for the Council of Ministers according to the ‘budget stability objectives’ for both the national and regional governments.

The preliminary draft budget is discussed and approved by the Council of Ministers in September, including a multi-year macro-economic framework contained in the Stability Program drawn up in accordance with the EU Stability and Growth Pact. The draft budget is then submitted to the lower chamber of the parliament (*Congreso de los Diputados*) by the 1st October. Parliament scrutinizes and discusses the draft budget in October and later reviews the projected budget scenarios and approves the aggregate expenditure ceiling during the first quarter of the next year. However, neither the Congress nor Senate discuss program performance.

Budget execution is a highly regulated process with a particular concern on legal compliance. The functions of auditing and control are vested in two institutions, namely: internal audit is performed by the General Audit Office (*Intervención General de la Administración del Estado – IGAE*) while external audits are undertaken by the Court of Auditors (*Tribunal de Cuentas*).

There are four main groups of institutional players that are influential in budget deliberations and in the budget preparation process.

First, the Revenue Commission, chaired by the Secretary of State for Finance and Budget, is responsible for coordinating the preparation of the revenue forecasts. Second, the Spending Policy Commission is chaired by the Minister of Economy and Finance with the assistance of the Secretary of State for Finance and Budget and with the participation of spending ministers or, by delegation, other top officials representing spending ministries and agencies. The role of this commission is to reach agreement on an initial allocation of budgetary resources consistent with government priorities and its aggregate fiscal policy. The commission sets ceilings within which each spending ministry and agency prepares their budget proposals.

Third, the Ministerial Budget Commissions are composed of representatives from the relevant units in each department, chaired by its deputy secretary. The task of these commissions is to make proposals for the preliminary draft budget, formulate priority criteria, review existing programs and monitor their execution. And, fourth, the Program Analysis Commissions exist with at least one in each department. These are chaired by the Secretary of State for Finance and Budget, and their functions include the analysis

of the adequacy and validity of spending programs and whether they are consistent with priorities defined by the Spending Policy Commission.

Insufficient Consideration of Performance Information

One of the key forces behind the Spanish budgetary reform process was the macro-economic and European pressure to restrict public spending and comply with economic stability objectives. Such demands were not only meant to control aggregate spending, but also to improve the quality of spending (Pollitt and Bouckaert 2004). However, the twin dimensions of budget stability and performance budgeting have not been addressed in a coherent and complementary manner in the Spanish case.

The potential synergy between these dimensions was well captured in the four basic principles articulated in the reforms, namely: budgetary stability; multi-year projections; transparency; and efficiency in the allocation and use of public funds. The reformed budget law incorporated these principles in 2003. As observed by one commentator:

the substance of the new law shows a keen interest in establishing an appropriate normative framework, making it possible to apply efficiency approaches into budgeting and to develop a management by results culture in respect to expenditure (Sánchez Revenga 2005).

This statutory reform required multi-year programming and the definition of objectives on a regular basis. It attempted to establish a systematic link between budget allocations and main objectives for spending ministries and agencies through the adoption of management by objectives, performance monitoring and policy evaluation. So, in theory and according to the law, public managers are required to be effective in attaining their objectives and to focus on results in the planning and implementation of their action programs. For each initiative, spending management units are required to specify a relevant set of objectives appropriate to their organization. These objectives must be included in their annual multiyear program.

Beyond that the management and control systems of public spending must be oriented towards results as well as financial compliance. Operational spending units are required

to prepare an annual report on the achievement of their objectives, which is to be included in their annual reports and in the multi-year programming of the ministry. Then, in theory, the MEH, in collaboration with spending ministries and agencies, leads and coordinates the evaluation of budget programs with the purpose of ensuring that spending policies achieve their strategic and socio-economic objectives.

However, the reality is somewhat different. The capacity of the Program Analysis Commissions to facilitate performance information sharing and debate on results in the budget process remains quite limited. The Program Analysis Commissions were supposed to play the role of analyzing the adequacy and validity of spending programs in relation to their objectives; allocating resources within the budget ceilings for each ministry or agency; and ensuring that proposed allocations are consistent with priorities set at the political level. It was also intended that these commissions reviewed and took into consideration program results in the preceding year.

But they have not been very successful in playing these roles due to both technical and political factors. For instance, there are shortcomings in the instructions received from the Spending Policy Commissions. Often, these instructions are neither concrete nor effectively communicated. There is a tendency to avoid or hide conflict rather than deal with it in a transparent manner. It appears that communications are difficult and collaboration is low between spending ministries and the Directorate General of Budget. There is sometimes a major imbalance between the volume of information requested by the DGP and that received from the spending management units. This information also often arrives at the very last minute. The capacity to process and analyze this information is profoundly limited. Most of the information is financial in nature and the amount of relevant performance information remains sparse. Often, spending units do not have sufficiently accurate information about the budget implications of departmental plans, reform programs, or legislative proposals, complicating oversight over the adaptation of annual plans to the medium-term budget scenarios.

Furthermore, there is insufficient use made of the analytical capacities of the various institutional players and usually weak preparation of the starting positions for negotiation on both sides. Analysis lacks sufficient depth, with most budget commitments being considered unavoidable (e.g. personnel costs). The scope for

discretionary decision-making for budget corrections is perceived as narrow. While this may be valid in the short term, it is not necessarily the case over a medium or longer term horizon. Finally, there is limited scope for serious debate in the Program Analysis Commissions. Discussions are mainly focused on the projections of spending line items according to expected variations in inflation, or to new legislation or government initiatives. There is not enough time for debate or systematic analysis of programs. Debates are incremental and, frequently, focused on the maximum percentage increases authorized for budget chapters. There is scarcely any systematic debate about spending policies or ministerial priorities and past or expected performance. There is also no debate on interdepartmental programs. So far, budget scenarios have been mainly considered a formal exercise adjusted to the annual budget instead of the other way around. Annual budgeting should be an extension of the budget scenarios. As one of the authors of this chapter has written before:

The efficient allocation of resources in the framework of budgetary scenarios prepared with transparency – better knowledge on sector programs and information on performance – and with the active participation of spending managers, would be much more effective and relevant than the current annual program budget negotiations which focus on chapters or line items expenditures (Zapico 2005).

But it would be wrong to consider that the Program Analysis Commissions do not add value to the budget process. The symbolic and relational role played by the Commissions in the process of preparing the budget has again been underlined by (Zapico 2005), who found:

They significantly facilitate direct relationships among senior officials and shape expectations and standards of behavior or decision-making style facilitating progress towards reaching budget agreements. The commissions make it possible for technical specialists to obtain direct information on agreements or disagreements at the policy levels.

Some general suggestions for improving the functioning of the Program Analysis Commissions involve incorporating a more strategic and selective approach into the

budget negotiations; introducing a multi-year perspective in the debates; and taking into account information sensitive to the institutional and political context. More specific recommendations to improve the work of the DGP and the Program Analysis Commissions would include the following suggestions. First, there should be some modification of the role and competencies of the DGP in relation to the Program Analysis Commissions. When preparing for program analysis meetings, the DGP should reorient its efforts and resources toward the analysis of selective strategic spending. Debates at the commissions should focus on the long term effects and impacts of spending. Second, the application of management by objectives and of adequate criteria in resource allocation should be encouraged. One of the main concerns of Program Analysis Commissions should be to ensure the consistency of budget programs with sector plans of spending ministries and government priorities. Other types of analysis (e.g. assessment of the socio-economic and environmental impact of policies or cost-effective analysis) could be prepared in collaboration with external experts.

Third, the Program Analysis Commissions require new aims and a revision of their composition and size. Four types of meetings could be considered: (i) preparatory meetings with experts from the budget offices and the audit office in spending ministries; (ii) interface meeting between the DGP and spending ministry officials; (iii) follow up and compliance meetings; and (iv) final meetings, at the top level, after which no changes should be accepted unless accompanied by offsetting proposals from the same department. The composition and size of the commissions should be adjusted depending on the type of meetings in order to ensure their flexible and efficient functioning. Fourth, the commissions need to improve their decision-making capacities. To achieve such improvement the DGP should adopt a more proactive attitude during the preparation of new sector plans and programs in spending ministries. Officials of the DGP should be searching for information in the early stages on the potential budget impact of the main policy initiatives. This would allow them to anticipate possible risks of excessive spending, and to ensure sound programming (i.e., relating resources to objectives and actions; choosing relevant indicators; making subsequent monitoring and evaluation feasible).

Fifth, better incentives should be introduced for coordination and collaboration between the DGP, budget offices, and management operational services. Reports from the OECD (such as OECD 2001), the United Kingdom (UK Cabinet Office 1999) and the Chilean government (Chilean National Budget Office 2003) present various examples of policy options that would enhance collaboration among budget and management officials. Some examples include:

- a) sharing the ‘profits’ from performance budgeting between the Ministry of Economy and the spending ministries and agencies; rewarding savings resulting from cutbacks or from efficiency gains; or granting flexibility to allocate a portion of the profits in accordance with predetermined criteria;
- b) creating a ‘reserve fund’ for innovation and productivity, to be distributed on a competitive basis;
- c) signing budget agreements specifying the information required on resources, objectives, and activities while allowing more flexible spending management controls;
- d) using indicators of outcomes or impacts that require the cooperation of several services;
- e) focusing evaluation efforts on recognizing and promoting desirable management styles more than on the identification of spending misbehaviour or noncompliance;
- f) making the provision of funds contingent on meeting the information requirements.

The Main Outcomes of Budget Reform and Some Final Considerations

After several decades of budget reform in Spain, it is generally accepted that budgetary policy has been effective in introducing budget stability and fiscal discipline. The Spanish deficit of 0.98 percent of GDP in the year 2000 translated into a surplus of 1.3 percent in 2007 while public debt was reduced from the 50.9 percent of GDP in 2000 to

just 34.3 percent in 2007. In terms of budget management, new budget documentation offers an improved structure and more transparency to parliament and the public in general, while the budget process is now better structured involving more orderly interaction between budget officials and spending managers in the Program Analysis Commissions.

There have also been significant efforts to introduce a performance management perspective in the preparation and execution of budgets. However, the budget process in Spain still needs further improvements to consolidate an effective and sound performance budgeting system. Several weaknesses have been identified, namely: the lack of quality of the non-financial information produced; that budget programs follow organizational structures; that there is no time in the budget cycle for analysis and deliberation; a neglect of incentives to increase effectiveness and efficiency; and a lack of capacity within the DGP to process information.

Additional efforts are gradually being made to maintain budget discipline and further develop intended financial management reforms focusing on performance monitoring and program evaluation, both at the MEH and in spending ministries and agencies. However, the combination of stringent discipline norms together with formal requests for more performance-based budgeting, have proved insufficient in the past. Going forward, attention should now be paid to the cultural values and administrative behavior of main budget actors, which seem to limit the effectiveness of further reform.

One of the main obstacles to advancing the performance budgeting agenda was that budget authorities were not clear about the distribution of roles and responsibilities between the MEH and spending entities in the framework of performance budgeting. The main focus of the MEH was on expenditure control and fiscal discipline while simultaneously they expected ministries to develop the tasks of devising and revising outputs and outcomes.

To achieve a substantial qualitative improvement in performance budgeting there are several contextual conditions and socio-organizational factors to be considered. These are listed below.

First, a high degree of credible, well-built and sustained political support is necessary. One explanation for the limited success of performance budgeting to date is the inadequacy or lack of continuity of political support. There was once a strong commitment and political will in the MEH to start the implementation of program budgeting. However, this interest has not been maintained over time. The political power of the Finance Minister might not be sufficient to get an active collaboration from spending ministries and agencies without the explicit support of the President of the government.

Second, budgeting cannot be assumed to be a neutral-technical exercise providing economic and financial predictions, or a mere legislative process. Some of the problems identified in this chapter relate to the attempts to impose reform processes from the centre on the basis of an ideal technical solution. A non-participatory approach to budget reform might result merely in formal compliance, some ‘creative budgeting’ or even the rejection of performance initiatives. Conflicts and negotiations in the process should not be perceived as dysfunctional – to be avoided at all costs or solved by ‘objective or neutral’ analysis followed by ‘automatic’ or uncontestable decisions. Uncertainty, conflict and interdependence are part of the reality of the budget process. Specifying objectives, measuring performance, analyzing options and structuring the budget by programs may facilitate stability and predictability in budgeting, but will not eliminate the need for budget negotiation and conflict management.

Third, respect for the norms and legal traditions of a nation should be complemented with the development of a ‘management-by-results’ culture. There is an emerging sentiment that the legal perspective towards public budgeting is incompatible with a management approach, or that trade-offs between the two are necessary. On the contrary, we would argue it is necessary to complement the concerns about the legality of spending with a new emphasis on performance.

Fourth, formal rules and norms are insufficient in themselves to achieve systemic change. There is often a normative assumption that once new rules are announced they will be accepted and adopted. Legal and hierarchical traditions are deeply rooted in the Spanish system. New laws are proposed in the belief that success will be achieved once the ‘perfect’ norm is established and strictly applied. Although the importance of formal

procedures should not be underestimated, they are not sufficient by themselves to ensure the successful development of performance budgeting. It is necessary to apply the same model – ‘management-by-results’ – to the implementation of new reforms. The efforts of the MEH have been based primarily on introducing new legislation and guidelines for implementing changes in budgeting, auditing and evaluation. The application of the ‘management-by-results’ perspective to the process of budget reform has not been systematically considered. The evaluation of the reforms has been neglected. A continuous effort is required for assessing the impact of the reforms to date and for searching for reform improvements.

Fifth, a capacity to learn about ‘spending management’ must be developed. Performance budgeting represents an ideal budget model which supposedly facilitates improvements in public management. It is often perceived as ‘the’ solution for the public sector as a whole. The applicability of this model to different contexts or types of public organizations has not been questioned in the Spanish context. Abstract models are often regarded as state of the art by central players. But while spending managers will adapt their information systems and financial procedures to the requirements of the MEH, they do not necessarily regard them as genuinely valuable for their own management interests. This may explain the difficulties identified when it comes to learning how to introduce the model or how to adapt it to a specific organizational context. So, contingencies affecting its implementation need to be considered. This will entail consideration of the viability or validity of the reform instrument; where it is appropriate or inappropriate; whether there is sufficient capacity to managing the reform; or whether prevailing administrative norms (such as a hierarchical or legalistic culture) may affect the effective completion of the reform.

In short, the development of performance budgeting and ‘management-by-results’ will substantially benefit from sustained political support; from an enhanced learning capacity; and from the introduction of the right incentives (e.g., accountability for results). Crosscutting these three success factors, important efforts should be made to increase the interaction and cooperation between the various reform stakeholders so as to overcome the risk that adverse behavior will undermine efforts to adapt budget reforms to specific contexts or block collective efforts to move forward with performance budgeting within the Spanish public sector. We await the next steps.

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