

Budget reforms in Spain.

The need to go beyond budget stability into substantive performance analysis

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1. Introduction

Spanish governments started the reform of the budgetary process during the first half of the 80s introducing program budgeting. But internal budgetary practices did not change significantly. The budgetary process in Spain is under the control of the Ministry of Economy and Finance (MEH in Spanish) in charge of controlling public expenditure, setting taxes, managing borrowing and setting overall economic and fiscal policy. This main actor did not pursue a policy of broad managerial reform and did not actually change the system to make it more managerial or business like, as some other OCDE countries did (OCDE, 1981) However, Spain has been a success in terms of fiscal discipline, budget surplus, debt reduction and governance of a decentralized system where more than 50% of public spending depends on regional and local governments. In a rather traditional, pragmatic, incremental and bureaucratic fashion, Spanish governments, with both the Socialist and the Popular Party, have progressively reduced the deficit until the year 2005 where they achieved the first of a series of three surpluses in the last three years (Ministerio de Economía y Hacienda, 2008). Annual budget outcomes improved, documentation partially changed, but Spain did not embrace with enthusiasm reforms to deliver meaningful information together with the budget and to change the budget decision making process.

The Spanish public sector underwent profound transformations in terms of volume, composition of the revenue and spending. However, it was the pressure to achieve the conditions that gave access to the third phase of the Economic and Monetary Union which were critical for Spanish public administrations to make an effort of fiscal consolidation since 1994. After the success of the entrance in the “euro”, Spain maintained budgetary discipline. The successive Ministers of Economy and Finance, with the Socialists and the Popular Party governments were proud to leave public finances better than they had found them when reaching power. The European pressure justified a policy of modernization of the budgetary process but more in the area of stability and aggregate public spending than in the area of spending management and

distribution of resources. In the macroeconomic area, Spain approved fiscal rules in 2001 and 2006 (Ley 2001 and Ley 2006 a) 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 2006 b) but their impact on the system and on its transformation is not as clear.

This chapter presents, in the first place, an overview of the Spanish trajectory in budgetary reform, considering initiatives taken in the area of fiscal discipline and stability, and in the area of budget process and resource management, particularly in the framework of the performance budget model. Second, an analysis of changes introduced in the budget documentation and in the budget cycle including changes in the relation between the MEH and spending ministries. Budget reform in sub-central governments has not been considered. And third, the discussion of the main outcomes of the reforms taken including the issue of the use of an output-outcomes framework and the extent that a performance oriented perspective is present in Spain's policy making.

2. Spain's Trajectory of Budgetary Reform

The Spanish trajectory in budgetary reform is quite flat since there are no big bursts of change and innovation. Spain has followed earlier reforms in the US and in advanced European countries since the 60s to the 80s with program budgeting. More recently Spain has accompanied the discussions on output-outcome management in the OECD, IMF and other international institutions, and, strictly adapted to the European requirements of the European EMU. Therefore Spain is not a new comer in budgetary reforms since it has followed quite a long path now from the first attempts to rationalize decisions until the recent reforms to ground budgetary policy in a wider European framework while governing a decentralized system which is in all, but in name, a federal state.

One can distinguish at least four distinct, although somehow overlapping, phases of reform: a phase of *technical improvements* from 1976 to 1984; a *program budgeting* phase from 1984 to 1994; a *believing in the zero deficit phase* from 1994 to 2006; and,

a phase of a certain *return to the performance management philosophy* from 2003 to 2008.

2.1 Technical improvements 1976 – 1979

Spain had not introduced any of the initiatives that were taking place during the 60s in the main European countries with regard to the review of public spending (Gunther, 1980). The main concern for the regime before the 1978 Constitution was growth and the main tool were the “development plans.” Those plans 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 those planning techniques was limited from the perspective of the scope of economic projects and was not applied to wider social programs (Ruiz Huerta *et al.* 2007). The developments of this phase can hardly be considered as a budgeting reform. Furthermore there were almost no correspondence between cost estimates obtained in the process of evaluating projects and final executed budget allocations and there was not a coherent policy to improve spending management and the institutional capacity to monitor and manage the budgeting cycle on the basis of better information on outputs and effectiveness.

2.2 Program budgeting 1984-1994

The first Socialist government after the democratic transition won the 1982 elections with the political promise of change. While much of the big spending plans were conditioned by the severity of the industrial crisis in Spain, the charismatic Felipe González, by then President of the Spanish Government, put great emphasis on changing the public administration and making the machinery of government work.

The MEH, building on the US and French experience with program budgeting, invited some spending departments to produce a new budget format based on programs. In 1984, the Council of Ministers officially requested to all the departments and public organizations to present the classification of expenditures by programs. The order from the ministry established basic rules on setting objectives and indicators for every

program and since then the Spanish budget is presented according to three basic criteria: economic, functional by organization and by programs.

The aspiration of the government was to add rationality to a budgetary process in which decisions were often taken on the basis of incomplete information. The reform was introduced from the perspective of a results-oriented budget and was trying to link funding decisions with results, effectiveness or impact. However, the system was not useful to coordinate the action of the various government agencies and departments or to give a more coherent view of public spending across areas. The broad definition of programs was often criticized (Zapico, 1989) and public administrators had trouble to set objectives, find adequate and relevant indicators and, in general, connect their activities with social impact or the legislature government plan. This was also the phase of intense computerization of the budget administration within the public sector and of change in auditing techniques to make spending controls less obstructive and to look into activity beyond the control of compliance with legal procedures (Ministerio de Economía y Hacienda, 1983,1985).

The volume of resources managed by the public sector increased considerably during the second half of the eighties until the beginning of the nineties with the economic crisis that burst in 1993. Previous assumptions about economic growth were not achieved and public administrations, particularly Autonomous Communities, had problems to match public services in the areas of education, health and public infrastructures to an increasing demand. The inevitable result was a growing burden of debt at the regional and local levels.

2.3 Believing in the zero deficit 1994-2006

The emphasis on performance budget reform lost some ground in the mid nineties because the utility of program budgeting was questioned and because the political attention turned toward the European economic and monetary integration process. Spain started in 1994 a period of continuous growth until 2008 which provided a robust increase in revenue. As in the Australian and New Zealand cases included in this book, the combination of tax receipts and expenditure discipline made possible to reach

positions that were close to the budgetary balance by the year 2000 and to produce annual budgetary surpluses from 2005 to 2007.

In 2001 the Spanish Parliament passed legislation on budgetary stability. This first law was later amended in 2006 since it was considered that the definition of stability was excessively rigid and 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 Spanish budget is annual but the public sector is expected to work with long-term economic scenarios and multiyear programming as the main reference for the preparation of the annual budget since 1998. The stability law of 2006 linked the principle of budget stability to the economic cycle, setting the obligation to budget with a surplus when economic circumstances are favourable, and, the possibility of incurring in a public deficit during the low phases of the economic cycle with the aim to achieve an average position of equilibrium (Iglesias, 2007). The Council of Ministers, on the basis of the reports of the MEH, is responsible to determine budgetary goals and the upper and lower stability limits for a three year period. The proposal of the central government is presented to the Fiscal Policy Council where the autonomous communities meet with the central government and needs to be approved by both chambers of the Parliament.

This pack of 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:

1. There is a limit of a 1% deficit of GDP for all the administrations with the following distribution: 0.20 % the central government, 0.75% the autonomous communities and 0.05% 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” has also a limit of 0.5% of GDP for all the administrations and a distribution of 0.20%, for the central government,

0.25% for the autonomous communities and 0.05% for the local governments bringing the total deficit to a maximum of 1.5% which is half of the limit established by European rules.

3. The budget has to include the necessary information 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% contingency fund which can only be spent on needs which are not originated by the administration such as catastrophes and which could not be forecasted when the budget was approved.
5. The laws do not permit to use the surplus of the Social Security to compensate the deficit of the State. Each regional or local government is also treated independently and it is not possible to compensate deficit among them.
6. The central government can send a warning to other administrations if there is a serious risk of not complying with the stability objectives.

One of the main questions is to what extent those laws were necessary since the government had achieved a historic success in the management of public finance without them. The answer to that question may be that, in the first place, the Spanish government had learned from the beginning of the negotiations of the various European treaties that rules on fiscal discipline were necessary to dominate the bias towards deficits and debt. Secondly, the Popular Party and J. M. Aznar as President of the Spanish government was decided to be “the first of the class” in fiscal policy and set “the 0 deficit” as one of his main goals. This objective was made more flexible but not abandoned by the socialists governing again from 2004 since they also wanted that Spain was perceived as a “good European”. In the third place, both governments in 2001 and 2006 understood that establishing the fiscal rule in a law approved by the Parliament was the best way to impose budget discipline and avoid the tendency of present or future political authorities to uncontrolled public spending.

The reform was the consequence of a long process of progressive consolidation during more than a decade. It is yet to be tested during turbulent times. The optimists say it is here to stay given the political consensus on the main goals. For the MEH it made the budgetary negotiations easier (Iglesias and Morano, 2008). On one hand, having caps on the non financial spending allowed to lower the initial demands of ministries and agencies. On the other hand, the central government could impose European stability and accounting rules to autonomous communities and make regional and local administrations participate in the definition of the general context of the Spanish public finances.

2.4 Return to the performance management philosophy 2003-2008

Two initiatives in 2003 and 2006 are a sign of a certain return to the performance management philosophy that had been inaugurated in the eighties with program budgeting. Program information presented in the budget was not useful neither to the MEH nor to spending managers. It was necessary that each ministry and agency grouped programs into one multiyear program including long-term information on the activities of public enterprises and other public entities with a functional dependency from the ministries.

The General Budget Law was reformed in 2003 to include rules and principles of micro management and emphasize budgeting by objectives and output-outcome control (Ministerio de Economía y Hacienda 2003, 2006; Espadas, 2005). After this reform, it was expected that a relatively sophisticated system would be developed on the basis of setting objectives for multiyear programs, results oriented management, close follow up of objectives and the preparation of management reports with detailed information on expenditures and a broad evaluation of results. The same reform introduced an evaluation procedure for public policies. The MEH had to play a role in the coordination of the evaluation effort of program spending. Furthermore, a new agency was going to be created with this mission.

The second initiative in 2006 was the approval of the State Agencies Law. In Spain, there were already various types of entities with different degrees of managerial autonomy, some of them with the term “agency” in their name. But this time, the State

Agencies Law opened up the possibility of creating up to eleven agencies with the old 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 which was created was the State Agency for the Evaluation of Public Policies and the Quality of Public Services which started in 2007 under the authority of the Minister of Public Administrations (CECAE, 2004). Between 2006 and 2008, six other units of the central administration were transformed into agencies in the areas of publishing the Spanish official journal, research, international cooperation and development, meteorology, air traffic control and security and anti doping.

From the budgetary perspective, agencies have a greater flexibility since managers negotiate with the MEH their general funding and have full discretion to use the resources except in the area of personnel. It is expected that agencies will be able to sell a relevant share of their services or get sponsors for their activities, help to change the management culture and develop a deeper sense of responsibility of public managers for the resources they use and the results they achieve. The MEH, however, was reluctant to the development of agencies because of uncertainties on the revenue side and the loss of control over spending. According to various recent interviews made at the MEH, the development of agencies should be reserved to 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.

3. Budgetary documentation reflects the reform interests of the Spanish government

The format and structural logic of the budget papers have not changed much since the mid eighties but there have been considerable changes in the way they are presented. Some changes adapted 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. Various versions of the budget are posted in the MEH web site offering varying degrees of detail. However, the 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 and economic

classification of revenue 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 are “General Administration”, “Diplomatic Action”, “Cooperation for Development”, and, “Promotion of Spanish Culture Abroad” which correspond with the main 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 “Cooperation for Development”, following the example, the narrative section of the 2008 budget (Ministerio de Economía y Hacienda, 2008) puts the emphasis on the progression towards the 0.7% of external aid/ GDP goal but does not give details on activities or outcomes of the department in the past. For that matter, the budget refers to the documentation that produces the ministry in the form of 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, say, investment plans or transportation subsidies – with detailed statements for each project or line of action – but there is little information on existing policy rationale or its effects which, again, is seen as the responsibility of the ministry.

Budget documentation also includes government reporting on fiscal policy intentions and economic developments. 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 reform regulated with detail the economic reports that the state, regional and local governments have to produce with regard to the budget and the economic cycle.

The main responsibility is for the MEH who sets the 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 Central European Bank, the European Commission, the central Bank of Spain, and the National Institute of Statistics. The legislation also

regulated the economic and social variables and the kinds of analysis that the report has to include.

The autonomous communities and the local governments also participate in the process of discussion of the budget objectives for the cycle and produce reports through the Fiscal and Financial Policy Council - where the Autonomous Communities meet with the central government for financial affairs - and the Local Administration Council. Those reports are mandatory and they are passed on to the Parliament with the rest of the government documentation.

Spending ministries are also required to produce budgetary documentation. Basically, they are supposed to group the programs of their management centres, including all the agencies and corporations or public enterprises with a functional dependency from the ministry. The multiyear 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 IGAE – General Controller of Central Government – 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, with some pilot programs, where the MEH developed a role as an agent of change in the area of management beyond the organization frontiers of the ministry.

4. The budget process: key institutional players and their role in the development of a performance perspective.

4.1 Basic process and main actors

The budget preparation processes starts in January each year 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 “Multiyear Budgetary Scenario” according to the 2001 and 2003 reforms. To this end, the Directorate General of Budget (DGP) in collaboration with the budget offices of spending ministries and agencies prepares projections for a long term scenario and

submits them to the DGP. The DGP adds the revenue projections and sends them to the MEH who presents the scenario to the Council of Ministers. The MEH then prepares recommendations for the Council of Ministers on “budget stability objectives” for both the national and regional governments. . The Council of Ministers decides on the budget policy including a multiyear macroeconomic framework contained in the Stability Program drawn up in accordance with the EU Stability and Growth Pact—and submits it to the Parliament, which reviews and either approves or rejects the proposed budget framework.

The key institutional players in the budget preparation process are:

- The “Spending Policy Commission” 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 an agreement on an initial allocation of budgetary resources which is consistent with government priorities and aggregate fiscal policy. The commission sets ceilings within which each spending ministries and agencies prepare their budget proposals.

- The “Revenue Commission”, chaired by the Secretary of State for Finance and Budget, which is responsible for coordinating the preparation of the revenue forecasts.

- The “Ministerial Budget Commissions” composed of the 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.

- The “Program Analysis Commissions”, at least one per department, chaired by the Secretary of State for Finance and Budget, whose 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

The preliminary draft budget is discussed and approved by the Council of Ministers in September, and is then submitted to the lower chamber of the Parliament (*Congreso de los Diputados*) by October 1st. Thus, the Parliament reviews the budget scenarios and approves the aggregate expenditure ceiling during the first quarter of the year, and, in October discusses the draft budget. Neither the Congress nor Senate, however, 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 various institutions: the internal audit done by the General Audit Office (*Intervención General de la Administración del Estado – IGAE*) and the external audit done by the Court of Auditors (*Tribunal de Cuentas*).

4.2 Insufficient consideration of performance information in Program Analysis Commissions

One of the key forces behind the Spanish budgetary reform process was the macroeconomic and European pressure to restrict public spending and comply with economic stability objectives. This demands not only the control of aggregate spending, but also improved quality of spending (Pollit and Bouckaert, 2004). However, budget stability and performance budgeting haven not been addressed in a coherent and complementary manner in the Spanish case.

The potential synergy between these issues was well captured in the four basic principles articulated in the reforms, namely budgetary stability; multiyear projections, transparency and efficiency in the allocation and use of public funds. The reformed budget law incorporated these principles in 2003. As observed by Sánchez Revenga (2005): “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.”

The reform required multiyear 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 development of management by objectives, performance monitoring and policy evaluation:

1. 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.
2. The management and control systems of public spending must be oriented towards results as well as financial compliance. Spending management 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 multiyear programming of the ministry.
3. 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 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 Program Analysis 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 such as:

- 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.

- Difficult communication and low collaboration 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 often arrives at the very last minute. The capacity to process and analyze this information is limited. Most of the information is financial in nature and the amount of relevant performance information remains low. Often, spending management units do not have sufficient 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.

- Insufficient use of analytical capacities and 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). The scope for discretionary decision-making for budget corrections is perceived as narrow. While this might be right in the short term, it is not necessarily the case over a medium or long term horizon.

- Limited scope of the debate in the 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 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 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 focus on chapters or line items expenditures” (Zapico, 2005).

From other points of view, program analysis commissions add value to the budget process. The symbolic and relational role played by the program analysis commissions in the process of preparing the budget has been underlined by one of the authors (Zapico, 2005): “They significantly facilitate direct relationships among senior officials and shape expectations and standards of behaviour 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 multiyear perspective in the debates; and taking into account information sensitive to the institutional and political context. More specific lines proposed to improve the work of the DGP and the program analysis commissions are:

1. Modification of the role and competencies of the DGP in relation to the program analysis commissions When preparing 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 long term effects and impacts.
2. Encourage the application of management by objectives and of adequate criteria in resource allocation. One of the main concerns at 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.
3. Introduction of new aims for program analysis commissions and revision of their composition and size. Four types of meetings could be considered: (a) preparatory

meetings, with experts from the budget offices and the audit office in spending ministries; (b) interface meeting between the DGP and spending ministry officials; (c) follow up and compliance meetings; and (d) 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 flexible and efficient functioning.

4. Improvement of decision making in the Program Analysis Commissions. To bring about this improvement the DGP should have 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 at early stages on the potential budget impact of the main policy initiatives. This would allow 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.)

5. Introducing incentives for coordination and collaboration between the DGP, budget offices, and management operational services. Reports from the OCDE, (OECD, 2001), the UK and the Chilean government (UK Cabinet Office, 1999, Chilean National Budget Office, 2003) present various examples of policy options that would enhance collaboration among budget and management officials. Some examples are:

- 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 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

5. Main reform outcomes and 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 in Spain. The Spanish deficit of 0.98 % of GDP in the year 2000 translated into a surplus of 1.3 % in 2007 while the debt was reduced from the 50.9 % in 2000 to 34.3 % in 2007. In terms of budget management, new budget documentation offers an improved structure and more transparency to the Parliament and the public in general, while the budget process is better structured with 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 budget preparation and execution. However, the budget process in Spain still needs further improvements to consolidate an effective and sound performance budgeting system. Several weaknesses have been identified: lack of quality of non-financial information produced; budget programs following organizational structure; no time in budget cycle for analysis and deliberation; neglecting incentives to increase effectiveness/efficiency; and lack of capacity of DGP to process information.

Additional efforts are gradually being made to maintain budget discipline and further develop financial management, performance monitoring and program evaluation, both at the MEH and in spending ministries and agencies. However, the introduction of restraining discipline norms and formal procedures with regard to performance budgeting have proved insufficient in the past. Thus, attention should also be paid to spending behaviour and cultural values of main budget actors.

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

There are several contextual conditions and socio-organizational factors to be considered for a substantial qualitative improvement in performance budgeting:

First, a sustained, credible and well-built political support is necessary. One explanation for the limited success of performance budgeting to date is the weakness or lack of continuity of political support. There was 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 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 for economic and financial prediction, 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 a technically ideal solution. A non-participatory approach to budget reform might result in a merely formal compliance, “creative budgeting” or even the rejection of performance budgeting. Conflicts and negotiations in the process should not be perceived as dysfunctions to be avoided or solved by “objective or neutral” analysis followed by an “automatic” or unquestionable decision-making. 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, respecting the norms and legal traditions should be complemented with the development of a management by results culture. There is a general feeling that the legal perspective of public budgeting is incompatible with a management approach.

There is a perception that there is a trade-off between both of them. On the contrary it is necessary to complement the concern with legality of spending with a new emphasis on performance.

Fourth, the main instruments and values of the reform model and its implementation strategy are reliance on rules and norms, hierarchical relationships, assumption that reform objectives are generally accepted and “neutral” professionalism. 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 management of the reform. 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 budget reform itself has not been systematically considered. The follow up and evaluation of the reform have been neglected. A continuous effort is required for assessing the impact of the reforms and searching for reform improvements.

Fifth, spending management learning capacity must be developed. Performance budgeting represents an ideal budget model which is supposed to facilitate improvement 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. Management and budgeting by results is regarded as a valid model. However, spending managers adapt their information systems and financial procedures to the requirements of the MEH but do not 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. The contingencies affecting its viability or validity need to be examined: inappropriate contexts, insufficient capacity to managing the reform, or a hierarchical or legalistic approach may affect the proper completion of the reform, even if the implementation strategy is correct.

In short, the development of performance budget and management by results will substantially benefit of sustained political support for the reform; enhancing learning capacity; and introducing the right incentives (e.g: accountability for results).

Crosscutting these three success factors, important efforts should be made to increase interaction and cooperation between reform stakeholders so as to overcome risk adverse behaviour that may be blocking any collective efforts to move forward with performance budgeting or to adapt the budget reform to specific contexts within the Spanish public sector.

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