Introduction

Spain is a decentralized country as far as government spending is concerned, operating a system in which its regions or autonomous communities play a particularly relevant role — administering roughly a third of total public expenditure — and where their fiscal outcomes have a significant impact on general fiscal policy and sustainability. Indeed, the literature dedicated to the finances of the autonomous communities has shown a specific concern for their fiscal outcomes and funding model, while their budget practices have been just partially examined by a number of specific publications.

This issue of Info IEB provides a summary of the main conclusions contained in the "Report on the Budget Practices of the Autonomous Communities" prepared by members of the Barcelona Institute of Economics (IEB), with funding from the Institute of Fiscal Studies (IEF) and support from the Independent Authority for Fiscal Responsibility (AIReF).

We designed a survey purposely for the analysis of the budget practices of autonomous communities, inspired by international experiences and comprising 74 questions distributed in six blocks, of which three are transversal (organization and regulation, budget system, and transparency and participation) and three are specific to the stages of the budget cycle (elaboration, execution and outturn). Responses were obtained from 15 autonomous communities, representing around 92% of the Spanish population, and a similar percentage of the country’s gross domestic product and the total financial uses (expenditure) of the autonomous communities, thus, covering the management of more than 190 billion euros. The main findings and conclusions derived from the different blocks in this survey are presented in detail below.

Organization and regulation of the budget function

The central budget offices assume the most relevant functions in preparing the budgets of the autonomous communities, and in managing budget structures and budget modifications. However, revenue forecasts and...
The budget systems are mainly oriented towards inputs and resources, together with some elements of program- or performance-based budgeting.

The monitoring and control of budget execution and budget output are functions shared and carried out principally by other units.

Some autonomous communities have established specific bodies or subgroups of civil servants that require specialist knowledge about budgeting, but this is not a common practice. In general, no specific profile of skills or knowledge is defined for personnel assigned with undertaking budgetary functions, nor are institutionalized specific training itineraries provided for them.

However, many of the autonomous communities have established audit offices, responsible for the external control and legal and accounting oversight of the budget. This is not the case for autonomic parliamentary budget offices, which their establishment are not spread, and whose mandate is to provide technical support to the legislature by examining and reporting on fiscal sustainability and the credibility of economic and budget forecasts, as well as on government and parliamentary initiatives that have a direct impact on the public budget.

General budget system

The budgetary systems of the autonomous communities are mainly oriented towards inputs and resources, although the introduction of elements of program- or performance-based budgeting is widespread. However, performance reporting continues to be used primarily for budget presentation and transparency, but not as a relevant reference for making budget allocation decisions.

Budget elaboration calendars, their specific stages and actions, as well as their duration, vary from one autonomous community to another. The calendar usually begins with the preparation of the macroeconomic framework in March and ends with the presentation and debate of the budgets to the respective regional parliament between November and December.

Within the public accounting system, there is room towards achieving a highly systematized conciliation of the entire public sector, including those public sector entities without a limited expenditure estimates, between the government public sector and the European System of Accounts, and above all with the public sector as it is defined by each autonomous community. However, cost accounting remains a pending issue in all the autonomous communities, its application being infrequent, and where it is undertaken mainly by healthcare public entities.

The budget information and communication systems of the autonomous communities are oriented to the processing, management and operation of financial information, and tend to neglect performance reporting and the management, planning and appraisal of public investments.

The vast majority of autonomous communities implement complete budget structures at the level of economic, administrative and program classifications, as well as additional levels corresponding to territorial, project and source of financing classifications. It should be noted that, in relation to classification by program, the subprogram level is not particularly widespread. On the other hand, several autonomous communities have introduced classifications that allow spending to be analysed according to the different concerns or interests of specific groups. Here, gender impact assessments are the most frequent, while calculations of spending on children and analyses of environmental or climate impact are less so.

Budget planning, preparation and approval

The autonomous communities have introduced a significant volume of elements typical of budget practices that are generally recommended and considered to be advanced, including the incorporation of performance reporting, the medium-term budget frameworks and “top-down” budgeting, as well as other fundamental elements with a solid foundation. However, these advanced elements still remain in an early stage of development and have yet to be fully integrated into the budget process, where they might play a more relevant role.

Budget preparation generally takes about nine months (starting in March), including parliamentary scrutiny and approval, and incorporates the main recommended elements, but most autonomous communities do not have multi-year capital expenditure plans/programs. This means the processes of project prioritization and selection are decentralized, and fail to make systematic use of any evidence (appraisal) of their potential profitability, impact, outcomes and risks.

Macroeconomic and revenue forecasts depend largely on information provided by central government, and the autonomous communities do not usually carry out any sensitivity or fiscal risk analyses. Additionally, it is common for these governments to allocate a very small proportion of their resources to a contingency fund (frequently less than 0.5% of total spending), leaving little cushion to face fiscal risks.

The processes of budget elaboration present a bottom-up bias, with global spending ceilings being used by all regional governments and departmental spending ceilings by the majority. Indicative ceilings are communicated in the budget circular, but their formal approval is usually not obtained until the end of the budget request stage. Ceilings are generally set for the coming fiscal year, and only a few governments set multi-year limits. This, coupled with the fact that budget requests often only include the budget impact for the next year, prevents full integration of the medium-term perspective within the annual budget formulation.

Most of the autonomous communities do not develop multi-year capital expenditure plans.
**Budget management, control and execution**

Based on the responses received, a certain degree of flexibility can be seen in the management of budget expenditures estimates. Despite this, in some cases expenditure estimate pools are established at a very detailed levels of the economic classification. This might result in less flexibility in estimates management and require a high volume of budget modifications/virements, which may, in turn, have negative repercussions for the work of the corresponding managers in terms of their time, agility and room for manoeuvre. These pools are characterized by different exceptions as defined by the autonomous communities, the most common being those related to entity-specific grants and transfers; earmarked expenditures; spending on protocol, advertising, publications, meetings and conferences; personnel costs; and expenditure related to specific budget modifications.

Budget modifications are defined in the corresponding budget regulations of each autonomous community. Their control and analysis are mainly oriented to the verification of legal compliance, the sufficiency and adequacy of the credit, and their budgetary impact, while impact analyses in relation to performance are less frequent.

Responsibility for the use of the budgetary contingency fund lies mainly with the autonomous government councils. To ensure accountability, quarterly reports are usually made to the corresponding autonomous parliaments.

As regards the control of spending commitments for future fiscal years, a system of percentage limitation for future annuities is frequently applied. The most frequent configuration is that of limits of 70, 60, 50 and 50%, respectively, for four future fiscal years. Although this type of control may represent an effective restrictive measure, it might fail to take into account the future development of the maximum spending capacity of the corresponding autonomous communities, which can be fluctuating and non-linear.

The autonomous communities apply most of the main fiscal control and monitoring mechanisms, with the exception of comparisons within year execution theoretical values. Operational controls related to performance or results-based budgeting are implemented by only a minority of the regions. Similarly, in relation to the monitoring of the execution of revenues and expenditures, a greater preponderance and frequency of controls have been observed in relation to entities of an administrative nature, when possibly entities without a limited budget (public corporations with higher share of trade revenues) present a greater source of risk.

**Budget liquidation**

The documentation generated in the outturn of the budget takes a predominantly financial accounting orientation, with the General Account Report taking a prominent role. However, detailed documentation of the performance and execution of public actions is prepared by only a few autonomous communities, with the exceptions of the reporting of the actual values of the program performance indicators. Likewise, only a few autonomous communities prepare detailed reports on the state of capital projects, or reports on other actions or projects.

As far as the systematization of budget analyses, reviews and evaluations is concerned, quite a few autonomous communities report implementing processes aimed at analysing the economy, efficiency and effectiveness of public expenditure (performance audits, and performance and cost of service analyses), as well as processes aimed at optimizing the baseline budget, public policy evaluation techniques, and regulatory and gender impact assessments. However, these processes are not fully systematized or structured within the corresponding budget systems, and the associated conclusions and evidence do not seem to play a relevant role at key moments in the budget decision-making process. The situation is exacerbated by the fact that the performance information might be poor in quality.

The documentation and information contained in the budget liquidation should be a close reflection of that contained in the initial budget, being equally informative and explanatory.
The majority of the autonomous communities have adopted solid fundamental budget practices.

**Transparency and citizen participation in the budget**

The autonomous communities prepare a wide range of documentation and information in relation to the entire budget cycle which they make available to the public, although a bias is detected towards documentation relating to the initial stages at the expense of that describing details of budget outturn. This being the case, to ensure effective transparency and accountability, the documentation and information contained in the budget outturn should be a close reflection of that contained in the initial budget, being equally informative and explanatory. Specifically, the autonomous communities do not regularly provide information and explanations about the results/performance of the budget programs, the details of the end-year status of capital expenditure projects and personnel costs, and, to a lesser degree, how well they have complied with their fiscal goals.

In order to make budget information more accessible to citizens, the autonomous communities have promoted different instruments and tools. The most widespread practices are the creation of budget web portals and specific microsites for annual budgets, open databases and downloadable files. However, online budget simulators and games, the mapping of geographical budget data and tools for analysing and browsing budget data are not very widespread. It should be noted that, within the budget documentation, the so-called “citizens’ budget” is usually considered a good practice for summarizing and making the main features of the budgets more accessible to the public. Based on the responses obtained, only a few of the autonomous communities report publishing versions of the citizens’ budget for their initial budget (bill or law) and/or budget outturn.

Despite the notable volume of documentation related to the different stages of the budget cycle, most of the details that would facilitate an understanding of the budget planning and strategy (medium-term frameworks and multi-year capital expenditure plans), future prospects of public finances (pre-budget and pre-election reports, and long-term budget outlook and fiscal sustainability reports) and the efficiency and effectiveness of spending (expenditure analyses and evaluations) are generally not published. Public access to this information and the corresponding conclusions would enrich the budget decision-making debate in the autonomous parliaments, as well as offer greater transparency in relation to the current and future situation of public finances.

As far as the participation of citizens in the budget cycle of the autonomous communities is concerned, while the majority of autonomous communities hold public hearings, the development of participatory budgets or budget consultations is a minority act, with only a few autonomous communities currently carrying out such processes.

**Conclusions and recommendations**

Generally, the majority of the autonomous communities have adopted solid fundamental budget practices and have made good progress in introducing more advanced practices, laying down what should serve as the foundations for making a qualitative leap in budget management. Among the budget practices analysed, we have identified five – originating from different autonomous communities – that can be considered as being relevant, inspirational even, for the rest of the communities.

To continue improving the budgeting systems of the autonomous communities, 50 recommendations have been made. Among these, it is worth highlighting those aimed at improving fiscal discipline, completing the integration of the medium-term budget perspective and the application of top-down budgeting, as well as those related to strengthening the use of performance reporting and policy evaluation for budget decision-making.

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