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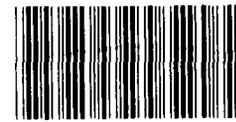
Fact Sheet for the Chairman, Committee
on Government Operations, House of
Representatives

131875

November 1986

BUDGET ISSUES

Budgeting Practices in West Germany, France, Sweden, and Great Britain



131875

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United States
General Accounting Office
Washington, D.C. 20548

Accounting and Financial
Management Division

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November 24, 1986

The Honorable Jack Brooks
Chairman, Committee on
Government Operations
House of Representatives

Dear Mr. Chairman:

Your April 15, 1985, letter asked us, in part, to analyze and examine the budgeting practices of foreign governments. In later discussions with your office, we agreed to obtain selected information from West Germany, France, Sweden, and Great Britain. These countries were selected because of their close proximity to our office in Frankfurt.

We talked with government officials in Bonn, Paris, Stockholm, and London. These discussions were designed to obtain general information on the countries' budget processes, capital budgets, and financing practices. Our audit work was conducted between October 1985 and January 1986. Specifically, we focused on identifying the following about the countries:

- whether their budgets are on a cash or accrual accounting basis,
- whether they have unified budgets or separate capital and noncapital budgets,
- how they fund capital and noncapital expenditures, and
- whether they have balanced-budget requirements.

Government officials provided us not only with information on these questions but also with historical budget data.

In summary, our work disclosed the following:

- Each of the four countries has a unified, cash-basis budget.

--While none of the countries has a separate capital budget, each provides information in its budget documents on capital investment expenditures.

--Income and value-added taxes are the primary funding sources for capital and noncapital expenditures.

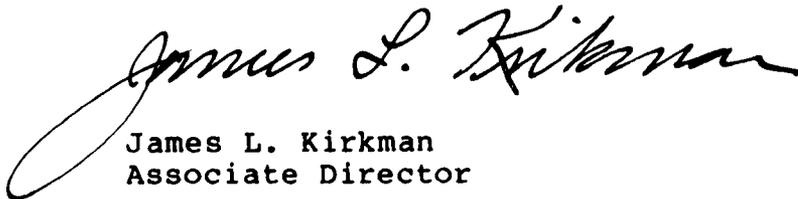
--The countries do not appear to earmark funds from a specific source of revenues for capital investments.

--Sweden, Great Britain, and France are permitted to have a budget deficit. West Germany is legislatively required to balance its current-year budget, and does so by borrowing to cover the difference between revenues and expenditures.

Appendix I summarizes the information on West Germany, appendix II is on France, appendix III deals with Sweden, and appendix IV summarizes Great Britain's budgeting practices. A glossary at the end of the report provides our definitions of cash and accrual bases of accounting, unified budget, and separate capital budget.

Unless you publicly announce the contents of this report earlier, we will not distribute it until 30 days from the date of this letter. Then, we will send the report to interested parties and make copies available to others upon request.

Sincerely yours,



James L. Kirkman
Associate Director

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ABBREVIATIONS

DM	Deutsche mark
Fr	Franc
£	Pound
Skr	Swedish krona

WEST GERMANYUNIFIED, CASH-BASIS BUDGET

The West German budget is a unified, cash-basis budget that covers 1 calendar year and 4 outyear projections. The current budget process originated in 1969, when the German government sought to coordinate budget policies and practices used by the federal, state, and municipal governments. The German constitution establishes the exact responsibilities, tasks, and revenue sources of each level of government.

The "Working Party on Tax Revenue Estimates," which comprises experts from the federal and state governments, the municipalities, the Federal Statistical Office, and scientific institutes, estimates the revenue from taxes. The various federal ministries and the other federal authorities request funds by submitting their estimates to the Federal Ministry of Finance. The federal minister of finance ensures that total expenditure does not exceed estimated revenue and the amounts that can be borrowed (in keeping with the performance of the economy as a whole).

In addition, the federal minister of finance is responsible for revising the estimates, if necessary, from an overall economic point of view, or reducing the requests if the budget cannot otherwise be balanced. The draft federal budget, drawn up on the basis of these principles, is then discussed and adopted by the federal cabinet.

The federal budget acquires the status of a law once it has been passed by the Bundestag (federal parliament) and the Bundesrat (federal council), signed by the federal minister of finance, the federal chancellor and the federal president, and promulgated in the Federal Law Gazette.

REPORTING ON CAPITAL ITEMS WITHIN A UNIFIED BUDGET

The West German federal government does not consider itself as having a separate capital budget. However, the federal ministries are required to report the following as capital investments: expenditures for buildings, acquisition of assets, loans to businesses, loan guaranties, acquisition of holdings, and investment grants. The major noncapital expenditure items include social services, general administration, and defense. The federal government reports subtotals for both capital and noncapital expenditures in its budget documents.

COMMON FUNDING FOR CAPITAL AND NONCAPITAL ITEMS

Personal and corporate income taxes, and value-added taxes are West Germany's largest sources of revenues. Revenues are specifically appropriated to fund Germany's social security and

European recovery programs, equalization of burdens fund, and its fees in the European economic community. All other revenues are put into one fund and used for all expenditures. Capital investments do not have a specific source of funding.

BORROWING PERMITTED TO "BALANCE" THE BUDGET

The West German federal government can borrow the funds necessary to conduct current operations up to a maximum of one quarter of the total amount of the previous year's budget. According to one German official, borrowed funds are not earmarked for particular expenditures.

German law, article 110, states that the budget must be balanced regarding revenue and expenditures. In order to meet this requirement, borrowing is used for current-year expenditures, debt servicing, and refinancing. A German official told us that Germans consider their budget balanced even if the government borrows the money to make up the difference between revenues and expenditures.

German law, article 111 states: "If, by the end of a fiscal year, the budget for the following year has not been established by law, the federal government may, until such law comes into force, make all payments which are necessary

- to maintain institutions existing by law and to carry out measures authorized by law;
- to meet the Federation's statutory, contractual, and treaty obligations; and
- to continue building projects, procurements, and other services, or to continue to grant subsidies for these purposes, provided that pertinent amounts have already been appropriated in the budget of a previous year."

Table I.1: Budget Magnitude Data for West Germany

(Deutsche mark (DM) and dollars in billions)

<u>Major revenues</u>	<u>Deutsche marks</u>	<u>Percentage of revenues</u>	<u>Dollar equivalent^a</u>
Income taxes	DM 91.9	35.4	\$37.3
Value-added tax	63.4	24.4	25.7
Taxes solely for the federal government	50.2	19.4	20.4
Fees and public enterprise income	26.3	10.1	10.7
Other	2.6	1.0	1.1
Borrowing to cover deficit ^b	<u>25.0</u>	<u>9.6</u>	<u>10.1</u>
Total	<u>DM259.4</u>	<u>100.0^c</u>	<u>\$105.2^c</u>
<u>Major expenditures</u>	<u>Deutsche marks</u>	<u>Percentage of expenditures</u>	<u>Dollar equivalent^a</u>
Social services	DM 82.3	31.7	\$ 33.4
General administration	52.2	20.1	21.2
Defense	51.3	19.8	20.8
Transportation	26.1	10.1	10.6
Education, science, and research	13.6	5.2	5.5
Economic stimulation	9.4	3.6	3.8
Other	<u>24.5</u>	<u>9.4</u>	<u>9.9</u>
Total	<u>DM259.4</u>	<u>100.0^c</u>	<u>\$105.2</u>
<u>Capital investment expenditures</u>	<u>Deutsche marks</u>	<u>Percentage of budget</u>	<u>Dollar equivalent^a</u>
Real investments (buildings, assets)			
Financial investments (holdings, loans guaranties, grants)	<u>DM35.0</u>	<u>13.5</u>	<u>\$14.2</u>

Source: Draft budget for fiscal year 1985.

Note: Budget year: January 1 to December 31

Total budget: 259.4 billion deutsche marks (\$105.2 billion)^a^aAll dollar conversions as of January 20, 1986 (\$1 = 2.466 DM).^bWest Germany does not use the term deficit when reporting the amount of funds borrowed to balance its budget.^cDoes not total due to rounding.

FRANCEUNIFIED, CASH-BASIS BUDGET

The French budget is a unified, cash-basis budget that originated in the 19th century. France's Budget Department drafts a calendar year and 1 outyear budget and submits it to each department minister, the prime minister, and finally the Parliament for adjudication and approval. If Parliament does not pass the budget within 70 days after it was submitted, French law allows the government to approve the budget by executive order. This has not occurred in recent times. In 1958, the government implemented the current system of seven titles (major spending categories) and 1,800 chapters (individual cost units). The titles are divided between capital and current expenditures. The following table lists the titles and their budget locations.

Table II.1: French Budget Titles

	<u>Current categories</u>
Title I	Interest on public debt
Title II	Funding for presidency, National Assembly, Senate, etc.
Title III	Administrative operations (personnel, supplies, etc.)
Title IV	Subsidies and transfer payments
	<u>Capital categories</u>
Title V	Investments by the state
Title VI	Investment subsidies
Title VII	War reparations

Each of the 40 government departments can use any of the seven titles if they apply. In turn, each title can consist of as many of the 1,800 chapters as needed. We were told that ministers have the flexibility to move funds within a given chapter, but not between them.

REPORTING ON CAPITAL ITEMS WITHIN A UNIFIED BUDGET

A French budget official told us that France does not have a separate capital budget. However, the amounts expended for capital investments are recorded in titles V, VI, and VII of the

budget documents. France considers all major defense procurement for land, buildings, and equipment as capital investments. Other than for defense procurement, France does not have an official, overall definition for capital investment. Items such as loans, grants, and subsidies, are classified as capital investments based on tradition. However, the budget official stated that while a state government may consider a grant or subsidy to a local government as capital, the local government might consider it a current expense.

COMMON FUNDING FOR CAPITAL AND NONCAPITAL ITEMS

Taxes on personal, corporate, and petroleum income, and value-added taxes are the largest sources of France's revenues. France earmarks some revenues for its national health and social security programs. In general, however, revenues are combined into a common fund and are available for funding all types of expenses. The difference between receipts and expenditures (deficit) is offset primarily by long-term borrowing.

DEFICITS ARE PERMITTED

French law allows a current-year deficit equal to not more than 3 percent of the year's forecasted gross national product. According to a budget specialist in the Ministry of Finance, this often requires the Parliament to enact new taxes or increase existing ones to keep the deficit within the legal allowance. While the current-year deficit is prescribed by law, the accumulated deficit total is not.

Table II.2: Budget Magnitude Data for France

(Francs (Fr) and dollars in billions)

<u>Major revenues</u>	<u>Francs</u>	<u>Percentage of revenues</u>	<u>Dollar equivalent^a</u>
Income taxes	Fr204.2	23.9	\$ 27.0
Value-added tax	444.6	52.0	58.8
Corporate taxes	117.8	13.8	15.6
Fees	44.6	5.2	5.9
Petroleum taxes	85.3	10.0	11.3
Other	<u>173.1</u>	<u>20.2</u>	<u>22.9</u>
Total	1069.6	125.1	141.5
Less repayments, rebates, etc.	<u>(213.9)</u>	<u>(25.0)</u>	<u>(28.3)</u>
Total	<u>Fr855.7</u>	<u>100.0^b</u>	<u>\$113.2</u>
<u>Major expenditures</u>	<u>Francs</u>	<u>Percentage of expenditures</u>	<u>Dollar equivalent^a</u>
General administration	Fr353.7	35.5	\$ 46.8
Subsidies and transfers for social and economic services	321.4	32.3	42.5
Military	150.2	15.1	19.9
Debt interest	83.9	8.4	11.1
Equipment	83.0	8.3	11.0
Other	<u>3.9</u>	<u>.4</u>	<u>.5</u>
Total	<u>Fr996.1</u>	<u>100.0</u>	<u>\$131.7^b</u>
<u>Deficit</u>	<u>Fr140.4</u>	<u>14.1</u>	<u>\$18.6</u>
<u>Capital investment expenditures</u>	<u>Francs</u>	<u>Percentage of budget</u>	<u>Dollar equivalent^a</u>
Title V: State investments	Fr 28.7	3.4	\$ 3.8
Title VI: Investment subsidies	72.1	8.4	9.5
Title VII: War reparations	<u>5.9</u>	<u>.7</u>	<u>.8</u>
Total	<u>Fr106.7</u>	<u>12.5</u>	<u>\$14.1</u>

Source: Draft budget for fiscal year 1985.

Note: Budget year: January 1 to December 31
 Total budget: 996.1 billion francs (\$131.7 billion)^a

^a All dollar conversions as of January 20, 1986 (\$1 = 7.565 Fr).^b Does not total due to rounding.

SWEDENUNIFIED, CASH-BASIS BUDGET

Sweden's unified, cash-basis budget is national in scope and covers the country's fiscal year which begins July 1. The budget is prepared for 1 year although some outyear planning takes place. Sweden budgets primarily on a functional basis starting with a division into major purposes known as sectors. These roughly equate to the various departments or ministries. Sectors further subdivide into main programs within the sector and subprograms which may cross sector boundaries. The budget is divided into cost elements or object classes such as salaries, supplies, equipment, etc.

From 1937 to 1981, Swedish law had required separate capital and operating budgets. However, in 1974, a government-appointed budget committee recommended changes to that budget system. It felt that historically, budgets have provided an explanation or plan for expenditures versus revenues and a portrayal of the accumulated national wealth. The effect of expenditures was more important than the areas in which they were spent. In addition, problems such as the evolution of complicated, incomplete definitions of capital, and abandonment of separate financing for capital and current expenditures furthered the necessity for change. In response, the Swedish central government adopted a unified budget in fiscal year 1981.

REPORTING ON CAPITAL ITEMS WITHIN A UNIFIED BUDGET

The Swedish government reports capital investment expenditures in its budget documents. Although each ministry ultimately determines which items will or will not be considered capital investments, the Ministry of Finance provides each ministry with a very general definition for capital investments. It is defined as excluding defense acquisitions and including procurement of assets that cost a minimum of 20,000 kronor (about \$2,600¹) and have a useful lifespan of at least 3 years. This can include major repairs, maintenance, and grants. Sweden's largest noncapital expenditures are for health and social programs, interest on the national debt, education, cultural affairs, and defense.

COMMON FUNDING FOR CAPITAL AND NONCAPITAL ITEMS

Value-added, income, and social security taxes constitute Sweden's largest sources of revenue. Most revenues are placed

¹All dollar conversions in this paper are based on January 20, 1986, exchange rates.

into one common fund and used to pay expenditures. An exception is the social security program, which is funded by a tax on wages.

DEFICITS ARE PERMITTED

Swedish law does not prohibit or place a ceiling on budget deficits.

Table III.1: Budget Magnitude Data for Sweden--Central Government
(Kronor (Skr) and dollars in billions)

<u>Major revenues</u>	<u>Swedish kronor</u>	<u>Percentage of revenues</u>	<u>Dollar equivalent^a</u>
Value-added tax	Skr 53.1	23.7	\$ 7.0
Income taxes	43.2	19.3	5.7
Social security taxes	48.8	21.8	6.4
Government activities	24.1	10.8	3.2
Other	<u>55.0</u>	<u>24.5</u>	<u>7.2</u>
Total	Skr224.2	100.0^b	\$29.5
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
<u>Major expenditures</u>	<u>Swedish kronor</u>	<u>Percentage of expenditures</u>	<u>Dollar equivalent</u>
Health/social programs	Skr 71.8	23.5	\$ 9.4
Interest on national debt	65.0	21.3	8.5
Education	35.9	11.8	4.7
Defense	22.6	7.4	3.0
Housing	20.6	6.8	2.7
Other	<u>89.1</u>	<u>29.2</u>	<u>11.7</u>
Total	Skr305.0	100.0	\$40.1^b
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
Deficit	Skr 80.9	26.5	\$10.6
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>
<u>Capital investment expenditures</u>	<u>Swedish kronor</u>	<u>Percentage of budget</u>	<u>Dollar equivalent^a</u>
Government investments	Skr 6.4	2.9	\$0.8
Lending for investments	14.7	6.6	1.9
Domestic transfers for investments	<u>9.8</u>	<u>4.4</u>	<u>1.3</u>
Total	Skr30.9	13.9	\$4.0
	<u><u> </u></u>	<u><u> </u></u>	<u><u> </u></u>

Source: Draft budget for fiscal year 1984/85.

Note: Budget year: July 1 to June 30

Total budget: 305.0 billion Swedish kronor (\$40.1 billion)^a

^aAll dollar conversions as of January 20, 1986 (\$1 = 7.603 Skr).

^bDoes not total due to rounding.

GREAT BRITAINUNIFIED, CASH-BASIS BUDGET

Great Britain's unified, cash-basis budget covers both the central and local governments for a fiscal year of April 1 to March 31. The chief secretary of the treasury and the Parliament establish spending levels for all municipalities. Within these levels, the ministers decide how to spend their allocations. The budget is for the current year and 2 outyears. According to one British official, the budget and projections at one time covered 5 years--the current and 4 outyears. This proved unmanageable because Great Britain's inflation made long-term plans quickly obsolete. British officials felt the plans would be more accurate over the shorter 3-year period.

REPORTING ON CAPITAL ITEMS WITHIN A UNIFIED BUDGET

British officials told us that their budget does not include a separate capital budget. However, Great Britain does report capital receipts and expenditures within the budget documents. Great Britain officially defines capital expenditures as "expenditures on new construction, land and extensions of and alterations to existing buildings, the purchase of any other fixed assets having an expected working life of more than 1 year, and stocks. Also included are grants and lending for capital purposes."

COMMON FUNDING FOR CAPITAL AND NONCAPITAL ITEMS

Great Britain relies primarily on income and value-added taxes for its revenues. With the notable exception of its social security program, Great Britain does not generally earmark revenue for specific expenditures. The social security program is funded, in part, by revenues collected specifically for the program.

DEFICITS ARE PERMITTED

If Parliament fails to pass the budget by April 1, the departments and agencies operate under a procedure which allows them to spend 45 percent of the preceding year's authorization. Great Britain does not have regulations that require a balanced budget.

Table IV.1: Budget Magnitude Data for Great Britain--Central Government

(Pounds (L) and dollars in billions)

<u>Major revenues</u>	<u>Pounds</u>	<u>Percentage of revenues</u>	<u>Dollar equivalent^a</u>
Income taxes	L 48.2	39.2	\$ 69.3
Value-added tax	40.0	32.5	57.5
National insurance and health contributions, etc.	22.4	18.2	32.2
Other	<u>12.3</u>	<u>10.0</u>	<u>17.7</u>
Total	<u>L122.9</u>	<u>100.0^b</u>	<u>\$176.7</u>
<u>Major expenditures</u>	<u>Pounds</u>	<u>Percentage of expenditures</u>	<u>Dollar equivalent^a</u>
Military defense	L 17.4	13.1	\$ 25.0
National health	16.6	12.5	23.9
National insurance benefits	22.0	16.5	31.6
Grants to personal sector	18.0	13.5	25.9
Grants to local authorities	20.1	15.1	28.9
Debt interest	14.6	11.0	21.0
Subsidies	5.7	4.3	8.2
Other	<u>18.7</u>	<u>14.0</u>	<u>26.9</u>
Total	<u>L133.1</u>	<u>100.0</u>	<u>\$191.4</u>
<u>Deficit</u>	<u>L 10.2</u>	<u>7.7</u>	<u>\$14.7</u>
<u>Capital investment expenditures</u>	<u>Pounds</u>	<u>Percentage of budget</u>	<u>Dollar equivalent^a</u>
Gross domestic fixed capital formation	L 2.8	2.3	\$4.0
Increase in stocks	0.1	0.1	0.1
Grants to private sector	2.3	1.9	3.3
Grants to public sector	<u>0.7</u>	<u>0.6</u>	<u>1.0</u>
Total	<u>L 5.9</u>	<u>4.9</u>	<u>\$8.4</u>

Source: Draft budget for fiscal year 1984/85.

Note: Budget year: April 1 to March 31
Total budget: 133.1 billion pounds (\$191.4 billion)^a^aAll dollar conversions as of January 20, 1986 (L1 = \$1.438).^bDoes not total due to rounding.

GLOSSARY

The following definitions are used in this report:

ACCRUAL BASIS OF ACCOUNTING

The basis of accounting under which revenues are recorded when earned and expenditures (outlays) are recorded when goods are received and services performed even though the receipt of the revenue or the payment of the expenditure may take place, in whole or part, in another accounting period.

CASH BASIS OF ACCOUNTING

The basis of accounting whereby revenues are recorded when received in cash (including checks) and expenditures are recorded when paid, without regard to the accounting period to which the transactions apply.

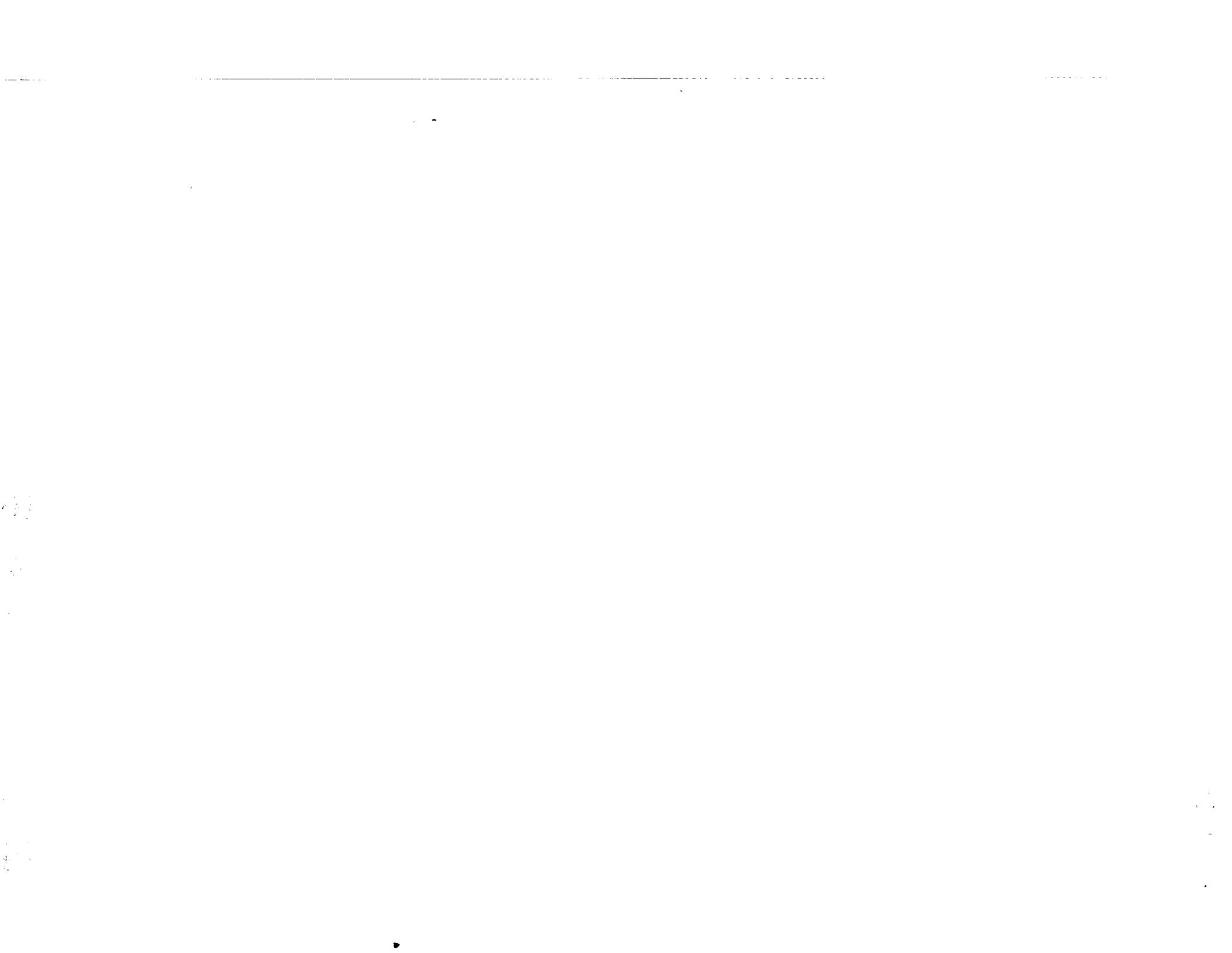
SEPARATE CAPITAL BUDGET

A budget whereby capital or investment-type programs are planned, budgeted, reported and sometimes financed separately from other expenditures. Contrasts with an operating budget for current activities. When a distinctly separate capital budget is used, receipts and expenditures for capital assets are not combined with operating amounts to produce an overall surplus or deficit total.

UNIFIED BUDGET

A budget in which receipts and expenditures for all activities including both capital and current or operating programs are consolidated. There is an overall surplus or deficit representing the combined results of the capital and operating components of the budget. There may or may not be subtotals for the capital and operating components.

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