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Budgeting in Singapore

by

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The public finance system of Singapore consists of four "pillars": the budget sector itself; the Central Provident Fund; the government investment agencies; and various special funds not consolidated into the budget. The budget process is characterised by close interministerial co-operation and the use of constitutional fiscal rules, spending ceilings for ministries ("block budgets"), across-the-board budget extractions (spending cuts), endowment funds, central manpower controls, and continual underspending. Parliament has a limited role. The President of the Republic has an important role as "fiscal guardian". The article describes these particular features of the Singapore budget process, and discusses other elements of budget implementation and government management such as the organisational structure of the government, the execution of budget appropriations, personnel management, financial management and reporting, and performance and results initiatives.

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Foreword

In an exchange of letters between the Singapore Ministry of Finance and the OECD in early 2006, it was agreed that the OECD would prepare a profile of Singapore's budgeting process. The profile would offer a general overview of Singapore's system of budgeting as well as highlighting the many innovative features of budgeting in Singapore.

This article is divided into five sections. The first outlines the structure of Singapore's multi-pillared public finance system. The second focuses on the budget formulation process. The third discusses the role of Parliament and the President of the Republic. The fourth reviews various aspects of budget implementation and government management issues. The article concludes with a description of the Central Provident Fund.

An OECD mission visited Singapore in April 2006 to prepare this profile. During its visit, the mission met with senior officials from the various parts of the Ministry of Finance – Fiscal Policy Directorate (Fiscal Strategy unit, Budget Policy unit, Budget Systems and Support unit), Accountant-General's Department – as well as senior officials from the Office of the Prime Minister, the Ministry of Education, and the Ministry of Health. The mission also met with senior officials from the Central Provident Fund.

The views contained in this article are those of the OECD Secretariat and should not be attributed to governments of OECD member countries, or to any organisations or individuals consulted for this profile.

1. The public finance system of Singapore

In order to understand the architecture of Singapore's public finance system, it is useful to think of it as consisting of four "pillars":

- The first is the budget sector itself.
- The second is the Central Provident Fund, which takes on the funding of many social services traditionally undertaken by the budget sector in OECD countries.
- The third is the government investment agencies. They manage the extensive surpluses generated by the budget sector and the Central Provident Fund over the years and yield significant annual investment incomes.

- The fourth is the operation of various special funds that are not consolidated into the government's overall budget position.

1.1. Central Provident Fund[1]

The Central Provident Fund (CPF) is a mandatory savings scheme financed by payroll contributions from both employers and employees. The combined contribution rate is currently 33%, with 20% paid by the employee and 13% by the employer. These contributions are credited to the member's personal account at the CPF which pays nominal interest on members' balances. The CPF allows its members to withdraw funds to pay for approved uses such as housing, retirement and medical costs for themselves and immediate family members.

The CPF is the centrepiece of Singapore's "personal responsibility" system for the provision of social services. The individual accounts in the CPF are the property of the member, and any remaining balances form part of their estate upon death. The Central Provident Fund relieves the budget sector from having to finance these social services for the most part.

The CPF generates large amounts of "surplus" cash-flow from members' contributions each year. These funds are invested in government securities. This largely explains why the Singapore government has high levels of domestic liabilities despite the budget sector having accumulated surpluses over the years and not needing debt financing. These surpluses are then invested by the third pillar of the public finance system: the government investment agencies.

1.2. Government investment agencies

The government has two principal investment agencies: the Government of Singapore Investment Corporation and the Temasek Holdings Private Limited Company. Both investment agencies are responsible to the Ministry of Finance. In addition, the Monetary Authority of Singapore – the central bank – maintains extensive holdings in foreign currencies to back the Singapore dollar.

The level of disclosure on the operations of the investment agencies – especially the Government of Singapore Investment Corporation – is very low. The government's view is that releasing such information may lead to speculation in the market and may adversely impact Singapore's economic stability and national security. The differential in the rate of return achieved by the investment agencies and the interest paid on the balances in individual CPF accounts – which is a principal source of the surpluses invested – may also be sensitive.

The Government of Singapore Investment Corporation acts "as a fund manager for the Singapore government" and focuses on the overseas investment of Singapore's surpluses. Its corporate profile notes that it invests "in equities, fixed income, money market instruments, real estate and special investments" and that it manages "more than USD 100 billion" in accumulated surpluses. No further information is released – neither the amount of its total assets (some believe that it is significantly "more than USD 100 billion"), nor the composition of its assets (either by types of instruments, geography or currency), nor the rates of return achieved on its portfolio.

The Temasek Holdings Private Limited Company operates "as an independent company separate from the government, but the government holds a 100% equity stake as an investor in the company." Temasek manages direct corporate shareholdings – both in Singapore and abroad – and its portfolio is wide-ranging. According to its corporate profile, it includes "telecommunications and media, financial services, property, transportation and logistics, energy and resources, infrastructure, engineering and technology, as well as pharmaceuticals and biosciences." It publishes an annual "Temasek Review" which provides details on its portfolio. Temasek acts as an "active commercial investor". Several of the companies are listed on the market in Singapore and overseas. It reports that the value of its portfolio is currently "SGD 103 billion[2] as at 31 March 2005, and has achieved total shareholder's return since inception (1974) of 18% compounded annually."

The Constitution contains a fiscal rule that limits the use of investment income generated by the investment of surpluses as well as providing extensive safety mechanisms to guard the reserves. This is discussed in subsequent sections of this article.

As is discussed below, the budget concepts of Singapore are designed to ring-fence part of the investment income generated by these agencies from the budget sector, in order to safeguard the real value of the accumulated reserves.

1.3. Other funds

Singapore operates several special funds that are not consolidated in the reporting of the budget to Parliament. (These funds are governed by specific acts.) The outstanding example is the Government Securities Fund; this is where the Central Provident Fund invests its surplus funds. The interest paid to the CPF is however netted against the investment income earned by the government investment agencies. As a result, the budget sector of Singapore shows no interest expense for the bonds purchased by the CPF. Similarly, government expenditure for the purchase of land is offset against income received from the sale of land.

There are also endowment funds. The government created special funds and capitalised them at high levels during years of high budget surpluses. The funds in turn yield an annual return that is used to fund various specific social expenses as specified by the acts which govern these endowment funds. These are discussed further in the section on budget formulation. Singapore views this treatment as easing the management and administration of the funds and their underlying transactions.

1.4. Budget sector

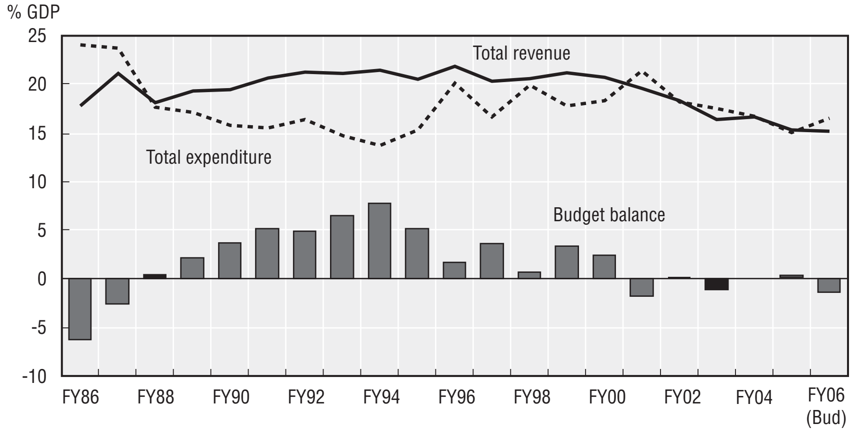
The existence of the large accumulated reserves has resulted in the use of unique budget concepts in Singapore. In short, they aim to foster fiscal discipline and sustainability by limiting the use of the investment income earned on the accumulated past surpluses.

At first, this was accomplished by using the "operating revenue" concept. This meant that investment income was not treated as revenue for budgetary purposes. Only taxes and user fees were considered as revenue. This resulted in the government's real surplus being substantially higher than its reported surpluses, or even reported deficits.

In 2000, Singapore's budget concepts were revised, and parts of net investment income derived from the investment of past surpluses were now treated as revenue for budgetary purposes. This was an implicit recognition of the tight fiscal realities going forward and the need to rely on net investment income contributions to fund required expenditure. In accordance with Singapore's fiscal rule (described in the next section), up to half of the annual realised net investment income could be used by the budget sector. However, this is a maximum amount and the government does not report what share of net investment income it actually used during a given year. The concept is somewhat euphemistically known as "total revenue". The government's total surpluses (inclusive of all investment income) continue however to be under-reported in the budget sector with this concept.

As a result, the performance of the budget sector does not give a comparable picture of Singapore's fiscal performance vis-à-vis OECD countries. The government's fiscal performance has been better than reported in the budget sector each year. With this caveat, Figure 1 shows the evolution of Singapore's fiscal performance since fiscal year 1986 according to the "total revenue" concept.

Figure 1. Singapore's budget performance FY1986-FY2006 as a percentage of GDP



Source: Singapore Ministry of Finance.

As can be seen, the budget sector experienced reported deficits in the late 1980s, which was a difficult economic time. In the 1990s, it reported surpluses every year – often very significant surpluses, and even during the Asian financial crisis. Since the millennium, Singapore has experienced both surpluses and deficits, although as a whole it has been roughly in balance. Events such as 9/11 and SARS adversely affected the fiscal performance during this period. During the 1990s, revenue averaged about 20% of GDP. It has shown a decline starting with the Asian financial crisis which brought on both lower economic growth and tax cuts in order to boost Singapore's competitiveness. During this time, Singapore has also been changing the emphasis of its tax system to a greater reliance on indirect (consumption) taxes.

Expenditures have moved in a range between 15% and 20% of GDP during most of this time period. In discussing expenditures, it is important to note that capital expenditures account for a very large percentage of total expenditures in Singapore – about one-third of total expenditures. The timing of individual projects largely explains the differences in individual years, although there was a distinct upward trend in overall expenditures during the 1990s which has since been arrested.

Other noteworthy features of the expenditures of Singapore's budget sector include the near absence of transfer payments (which are funded by the individual accounts at the Central Provident Fund) and interest expenses (which are netted out below-the-line against investment income).

2. Budget formulation

Singapore's budgeting process has evolved over the years from a traditional bottom-up system based on detailed line items to an advanced top-down system which emphasises robust aggregate limits on spending while granting line ministries maximum discretion in their final allocations among their various programmes.

Although similar in principle to many OECD countries, the Singapore budget formulation process incorporate various unique and innovative features. Section 2.1 highlights those features. Section 2.2 outlines the key steps in the annual budget formulation process.

2.1. Special features

This section reviews six innovative and unique features of the Singapore budget formulation system:

- Fiscal rules which are contained in the Constitution.
- Spending ceilings for ministries ("blocks") which are multi-year, directly linked with developments in GDP, and fully fungible between all categories of spending.
- Across-the-board budget extractions (spending cuts) to fund reallocations among ministries.
- Endowment funds where budget surpluses are placed which in turn fund various good causes from their annual investment income.
- Central manpower controls (head counts) and a system of surcharges if they are exceeded.
- Continual underspending of appropriations.

2.1.1. Constitutional fiscal rules

The Singapore Constitution contains three key fiscal rules. They provide an important anchor that promotes fiscal responsibility and sustainability in Singapore.

First, the Constitution establishes the principle that a government should not draw upon resources accumulated during previous terms of government. This means that deficits in any year must be balanced by surpluses accumulated in earlier years during its term of office. A government is elected for a maximum term of five years. No cyclical adjustments are made for these calculations.

Second, the Constitution establishes that a government may only consider as revenue for these purposes up to half of the annual net investment income from the accumulated reserves. Importantly, this is interpreted to include only realised income; *i.e.* "paper" income from capital gains on the portfolio is excluded from these calculations.

Third, there is an "escape clause" which allows a government to engage in deficit financing and draw on past reserves. In order to do so, the consent of the President of the Republic is required. This is known in Singapore as the "two-key" safety mechanism, *i.e.* both Parliament and the President must agree. In fact, acting as a fiscal guardian is the principal function of the Presidency. This is described in greater detail in section 3.

2.1.2. Spending ceilings ("blocks")

Budget formulation is based on each ministry receiving a multi-year spending ceiling, referred to as "block budgets" in Singapore. Within this ceiling, spending ministries have autonomy in making final allocations among their various activities. The Ministry of Finance takes a hands-off approach and empowers spending ministries to make the final allocations, as they are in the best position to make such decisions.

Box 1. Advances and carry-forwards

Up to 10% of the budget for the current year may be "borrowed" from future allocations within the five-year ceiling. They must be repaid within three years by deducting them from the ceiling in subsequent years. Interest is charged on such advances; currently it is at 3.2%. Ministries can also delay their budget allocations from one year to another. They can be carried forward for a maximum of three years; thereafter budget allocations will lapse.

Both measures **must** be undertaken during the budget formulation process as they are reflected in the budget approved by Parliament. (In-year flexibility is discussed in a subsequent section.)

While this top-down concept is common to many OECD countries, Singapore has applied it since around 2000 on a very unique basis. First, the ceilings are typically made for five years. The objective is to provide greater predictability and a more stable expenditure pattern. Within this five-year time horizon, ministries can borrow in one year against allocations in subsequent years and delay appropriations in one year to a subsequent year. Over the five-year horizon, the spending limit is fixed but each individual year is variable.

A comprehensive review was carried out before the five-year ceilings were established, with analysis of historical spending patterns and forecasts of medium-term outlays being made by the Ministry of Finance. Extensive discussions took place between the Ministry of Finance and line ministries as well. Upon introduction of the budget ceilings, the Ministry of Finance also noted that it was ready to deal with any unusual situations on an *ad hoc* basis; this is however extremely rare, as most requirements can be fulfilled using advances. For example, the SARS crisis is quoted as one of the very few examples that resulted in special additional allocations.

Second, the ceilings are not expressed in nominal amounts, but rather in terms of percentage of "smoothened" GDP (sGDP). For example, the ceiling of the Ministry of Education may be equivalent to 4% of sGDP per year. The nominal amount of each year's ceiling is determined by the level of sGDP. The percentage of GDP will be the same for all five years but, as noted above, ministries can take advantage of budget flexibilities such as carry-forwards and advances within the five-year period.

"Smoothened" GDP refers to averaging GDP growth rates over a six-year period. It uses the historical values for GDP for the past three years, the GDP assumptions used for the respective year's budget, and the projections of GDP for the two subsequent years. Smoothened GDP was designed to limit year-on-year volatility and to act as a counter-cyclical element: more money is available in lean years and less in better years than using non-smoothened GDP.

The Ministry of Finance does not make the percentage of GDP each ministry receives publicly available. The ministry views it as a management tool to assist in budget formulation rather than as a public commitment. (Due to the system of advances and carry-forwards, it is not possible to decipher the exact percentages from the amounts in the annual budget.)

Third, the spending ceilings that are assigned to ministries are fully fungible. Ministries receive one total ceiling to cover all of their expenditures: operating, transfer and capital expenditure.[3] Similarly, no special expenditures are "ring-fenced" within the ceilings.

2.1.3. Reinvestment Fund

In 2004, a system of across-the-board budget extractions (spending cuts) was introduced in order to make funds available for reallocation through a central Reinvestment Fund. Ministries then make bids for allocations from this fund. The money taken away from ministries may or may not represent a permanent reduction to their budget ceilings; the money "given back" is considered a one-off increase which does not affect their budget ceilings for subsequent years if the funding requirement is less than five years. However, if the funding requirement is more than five years, the money "given back" will increase the budget ceilings for subsequent years. This helps to ensure that the ministries have sufficient money to fund their new standing functions.

In 2004 and 2005, there was a system of across-the-board budget extractions on ministries' operating budgets, known as "productivity dividends". The extraction rate was pegged to the moving average of the national productivity growth rate, on the basis that the government should strive to be at least as productive as the rest of the economy.

The new system which was implemented from 2006 onwards, however, does not have any explicit linkage with productivity developments in the private sector. Renamed as "reinvestment dividends", it is also calculated on the basis of total budgets, *i.e.* including capital and transfers. The annual rate is currently 5%.

In addition to promoting reallocations to promising new areas, the current system of across-the-board budget extractions and the Reinvestment Fund is designed to "right-size" the ministries' budgets and to promote certain "good behaviours" by ministries.

The first is exemplified by the fact that the Ministry of Finance does not reallocate the full amount of money received through the across-the-board budget extractions and that the cuts are cumulative. This must also be seen in the light of high GDP growth in Singapore whereby GDP growth exceeds the rate of the across-the-board budget extractions; there is concern that ministries may not be able to put to effective or efficient use the annual GDP-linked growth in their budgets.

The second is exemplified by the fact that the criteria for successful bids from the Reinvestment Fund favour projects where two or more ministries co-operate, *i.e.* attempting to break down "silos" between ministries.

Smaller ministries complain the most about this system, though some of the more enterprising ones have benefited considerably from it. The fact that capital investments can be cut in order to meet the budget extractions is also resented by some ministries. (It should be noted that the Ministry of Defence is the only ministry not subject to this system.)

2.1.4. Endowment funds

During the very high budget surpluses of the early 1990s, the government created a number of endowment funds, whereby the government placed a large amount of money (in the billions of dollars) into stand-alone funds which in turn used their annual investment income to fund various good causes. They were primarily established in the social services area.

Since their creation, the government has used budget surpluses to increase the size of their capital, thus making more money available for annual distribution through their investment income. In addition, the annual budget does in some cases supplement the annual distribution from these funds to good causes.

2.1.5. Manpower controls

Singapore keeps centralised controls on manpower. The budget documentation includes the number of posts for each ministry. This was put in place due to concerns about the growing number of government employees in Singapore, which was especially high during the years of very high budget surpluses in the 1990s.

In 2004, a system was introduced to reduce total manpower by 3% each year over three years. The natural attrition rate for government employees is in excess of 3%, so the policy is effectively not to replace people leaving their posts. (The 3% target was applied on a ministry-wide basis, so internal reallocation of manpower controls is possible.)

In a novel departure from traditional manpower controls, the Ministry of Finance added an element of flexibility to the system. The manpower controls can be exceeded through the payment of surcharges (SGD 10 000) for each employee above the manpower limit. This represents a token amount, but having to pay the surcharge is viewed with some stigma among government agencies.

2.1.6. Underspending

While not a feature of the Singapore system as such, it is most noteworthy that government ministries typically do not fully use all of their budget allocations. The annual average amount of underspending is about 5% of total appropriations.

Rather than the appropriations to government organisations being simply too high – a situation being addressed by the across-the-board budget extractions which are only partially returned through the Reinvestment Fund – there appear to be three reasons for underspending, all caused by a common risk-averse attitude in government.

First, spending ministries view the top-down budget ceilings as having transferred the "volume of demand" risk from the Ministry of Finance to the line ministries, *i.e.* they need to keep an internal contingency fund in order to meet any unexpected demands on their services.

Second, Singapore's personnel system entails a large number of variable factors, many of which are not known until the end of the fiscal year. (This is discussed further in section 4 on budget implementation and government management issues.) As a result, it is considered prudent to have enough money available for this purpose, which generally is well in excess of the actual amount needed.

Third, underspending is related to the constitutional fiscal rule whereby a government cannot spend more money than it takes in during its term of office. Governments tend to be especially prudent during the beginning of their electoral terms, with spending increasing towards the end when they know they are secure in not violating the fiscal rule. The attitude of not violating the constitutional fiscal rule has however cascaded down to spending ministries to reinforce frugality at all times.

In response, the Ministry of Finance put in place a system whereby ministries must spend 95% of their budget allocation to encourage better budget "marksmanship" when ministries estimate their budget requirements. If they spend less than 95% of their budget allocations, they will suffer a one-off budget adjustment in the next year. At the same time, anything over 5% can be rolled over to the next year to avoid any end-of-fiscal year expenditure binges to meet the budget "marksmanship" target. As noted above, underspending typically amounts to 5% of total appropriations.

2.2. Annual budget formulation cycle

Singapore's fiscal year starts on 1st April. The budget formulation cycle begins in earnest the previous June, or ten months prior to the start of the fiscal year.

The "budget season" starts with bilateral meetings between the permanent secretary of the Ministry of Finance and the permanent secretary of each spending ministry. These are half-day meetings which are also attended by the senior finance staff of each spending ministry and the relevant sectoral staff of the Ministry of Finance. These meetings – known as the **annual strategic review** – focus on going over the respective ministry's key challenges ahead and how they can best be met. The meetings focus on the "big picture" and generally do not go down to the specificities of individual programmes or budget requirements.

At the same time, the economic assumptions for the budget are being calculated. This is crucial for setting the GDP-linked budget ceilings. The calculation of the economic assumptions is carried out by a joint committee of the Monetary Authority of Singapore (the central bank) and the Ministry of Trade and Industry (the economics ministry). The Ministry of Finance participates in this committee only as an observer. There are no official biases in the calculations of the committee, either conservative or otherwise. The committee has no formal independence and its conclusions are not submitted to any formal scrutiny.

The economic assumptions calculated by the committee are then inputted directly into the smoothened GDP model. Budget ceilings ("block budgets") are issued to ministries in a budget circular in July, together with the amount of the budget extracted from them for the Reinvestment Fund. This is a rather routine operation, as ministries know their parameters (the pre-agreed share of GDP and across-the-board budget extractions) and know that there are no "surprises" in the circular. The budget circular is issued by the Ministry of Finance and is not endorsed by the cabinet. Each spending ministry would only be aware of its own allocation, not those of other ministries.

In August, the Ministry of Finance convenes a meeting(s) of all permanent secretaries (or sometimes groups of permanent secretaries within a sector), known as the **whole-of-government/sectoral meeting(s)**. This meeting is designed to promote coherence across government in budget allocations, *i.e.* avoiding any duplication of work across ministries and exploring how ministries can best work together. In essence, it focuses on practical issues of interministerial co-operation. The meeting comes shortly before the deadline for the submission of bids to the Reinvestment Fund which are due by early September.

In reviewing the bids, the Ministry of Finance favours innovative new proposals, *i.e.* not simply proposals that re-finance current activities. Bids that involve interministerial co-operation are looked upon especially favourably. Spending ministries generally strive to put in bids for amounts at least equal to the amount of their respective across-the-board budget extractions. In fact, some ministries put in bids for amounts well in excess of their cuts.

There is no correlation between the amount of bids approved for each ministry and the amounts extracted from it for the across-the-board budget extractions. In aggregate, approved Reinvestment Fund bids amount to less than the total amount of the across-the-board cuts. Some ministries are simply on a continual downward "sunset" track. Spending ministries are informed of the decision on their bids in late October, about six weeks after they had submitted them.

Box 2. Annual budget formulation calendar

Fiscal year = 1st April to 31 March

June	Annual strategic review: bilateral meetings with each line ministry. Calculation of economic assumptions.
July	Each ministry's budget ceiling is established.
August	Whole-of-government/sectoral meetings: joint meeting with groups of line ministries.
September	Ministries submit their Reinvestment Fund bids.
Mid October	Ministries submit the allocations of their budget ceilings.
Late October	Decisions on Reinvestment Fund bids announced.
End October	Budget review meeting: bilateral meetings with each line ministry.
November	Ministries refine their final allocations.
December	Finalisation of the budget.
February	Budget proposal submitted to Parliament.

In the meantime, ministries will have requested the next fiscal year's allocation within their budget ceilings ("block budgets") from the Ministry of Finance. The Ministry of Finance gives "maximum discretion" to ministries in this area. Spending ministries do not play budget games by proposing unrealistic cuts in sensitive areas; they take ownership of their decisions on allocations.

Following the decisions on the Reinvestment Fund and the allocations of budget ceilings, bilateral meetings are held between the permanent secretary of the Ministry of Finance and his/her counterparts, accompanied by their respective staff. These meetings – known as the **budget review meeting** – focus on the ministries' budgetary performances in the previous fiscal year and any outstanding resource and management issues.

Following this meeting, ministries may alter their final allocation of resources. This is not to say that the Ministry of Finance is second-guessing their final allocations, but rather that they may refine them in the light of the conclusions of the Reinvestment Fund process. Some ministries may also launch formal appeals against their Reallocation Fund allocations which are sometimes successful. This final round finishes by the end of November.

In December, ministries will submit their draft annotations for the Budget documentation which are reviewed by the Ministry of Finance. In January, the budget proposal is presented to the cabinet and later in February to Parliament. There are typically no changes during this stage.

Box 3. Development Planning Committee (DPC)

All capital expenditures – referred to as development expenditure in Singapore – in excess of SGD 50 million must be submitted to the Development Planning Committee (DPC) for approval. This is a three-member ministerial committee composed of the Minister for Finance, the Minister for Trade and Industry, and the respective sectoral minister whose capital project has been submitted for approval. The secretariat for this committee is provided by the Ministry of Finance. Its objective is to vet projects to ensure that they are in line with established norms – for example that new government office buildings are appropriate in size and cost to their function – and that value-for-money alternatives, such as leasing or public-private partnerships, have been considered.

2.3. Conclusion

Singapore's budgeting system is based on four pillars: the budget sector itself, the Central Provident Fund, the government investment agencies, and the various special funds not consolidated into the budget. The Central Provident Fund is exceptional vis-à-vis OECD countries in that it largely relieves the budget sector from having to fund retirement and various other social benefits. The government investment agencies gave rise to Singapore's use of different budget concepts than those applied in OECD countries, largely to "ring-fence" the investment incomes from the budget sector. The very low level of disclosure concerning the operation of the government investment agencies is most noteworthy.

Singapore's fiscal rule is based on the principle that a government must have a balanced budget over its term of office, meaning that any deficits in one year must be balanced by surpluses in other years during its term of office. This has *inter alia* contributed to the widespread underspending of appropriations in Singapore, especially in the early years of a government's term of office.

Singapore's fiscal rule allows for up to half of the net realised investment income from past surpluses to be considered as revenue. However, it is not possible to determine what percentage is actually used, due to the transparency issues discussed above. As a result, external monitoring of compliance with the fiscal rule is not feasible. The President of the Republic however has a key role as "fiscal guardian" – distinct from the government – as is discussed in section 3.

Box 4. Performance and results information

Singapore's budget formulation process is informed by extensive information on performance and results. This information is an integral part of the three meetings that the Ministry of Finance holds with spending ministries, in evaluating bids for the Reinvestment Fund and for assessing the programmes of spending ministries overall. Performance and results information is however used mainly by the relevant spending ministries. The current challenge is to move from an output-oriented focus to a more outcome-oriented focus. (This is discussed in detail in section 4 on budget implementation and government management issues.)

The spending ceilings – multi-year, explicitly and directly linked to smoothened GDP, and fully fungible between operating, transfer and capital expenditure – are a unique form of the top-down concept which is not found in OECD countries.

The across-the-board budget extractions (spending cuts) use an unusually comprehensive base (not just operating expenditure), high rate (currently 5%), and prolonged time period (not just one-off) compared to OECD countries. This must however be viewed in tandem with the high GDP growth rates in Singapore – generally higher than the 5% rate – and the fact that a substantial part of the budget extractions are returned via the Reinvestment Fund.

Finally, the Singapore budget formulation process places a premium on interministerial co-operation as witnessed by the whole-of-government/sectoral meeting(s) and the criteria used for evaluating bids from the Reinvestment Fund.

3. Role of Parliament and the President of the Republic

The Parliament of Singapore has a limited role in the budget process. This is due to specific constitutional restrictions on its power, the nature of Singapore's political environment where one party has historically held nearly all seats in Parliament, and the fact that Singapore follows the Westminster tradition where Parliament's role in the budget process is limited.

The President of the Republic however has an unusual role in that his principal substantive function is to act as a fiscal guardian. The two institutions are discussed in turn in this section, as well as the Auditor-General's Office.

3.1. The Parliament of Singapore

The Parliament of Singapore is a unicameral chamber. There are 84 elected Members of Parliament (MPs). A Parliament sits for a maximum of five years.

MPs are elected into Parliament representing either single member constituencies (SMCs) or group representation constituencies (GRCs). At present, there are nine SMCs, nine five-member GRCs and five six-member GRCs. Both types of SMCs and GRCs operate on a first-past-the-post basis, *i.e.* the party winning a majority of the votes in a constituency will receive all of the MPs. It is not a proportional representation system.

The People's Action Party currently holds 82 of the seats, with opposition parties having only two seats. The People's Action Party has continually and overwhelmingly dominated the politics of Singapore since the founding of the Republic of Singapore, often holding every seat in Parliament. The People's Action Party runs unopposed in many constituencies.

The Constitution also provides for the appointment of other MPs not voted in at a general election: non-constituency Members of Parliament (NCMPs) and nominated Members of Parliament (NMPs).

Up to three NCMPs representing opposition political parties may be appointed from opposition candidates who lost in constituencies with the highest percentage of losing votes. This is to ensure that there will be a minimum number of opposition representatives so that views other than the government's can be expressed in Parliament. At present, there is one such MP, bringing the total number of opposition MPs to three.

Up to nine NMPs representing "community views" may be appointed. They generally represent respected grass-roots societies in the community and are not to be connected to any political party. They are appointed for a term of two and a half years on the recommendation of a special select committee of Parliament.

The unelected Members of Parliament – the NCMPs and NMPs – do not have the same rights as elected Members of Parliament. For example, they cannot participate in the vote on the budget, although they are able to debate on the merits of the proposed budget.

3.1.1. Parliamentary budget process

The parliamentary budget process starts in early February with the Minister for Finance delivering his/her Budget Statement. Parliament thus has just under two months to deliberate the budget prior to the start of the fiscal year on 1st April. In actuality, its deliberations on the budget take less than two weeks.

Box 5. Parliamentary budget timetable

Mid February	Minister for Finance delivers his/her Budget Statement. Parliament adjourned for seven days following the Statement.
Late February	Minimum two-day deliberations on the Budget Statement. Vote taken on resolution that "Parliament approves the financial policies of the government." Introduction (First Reading) of the budget bill.
Late February/ early March	Extended deliberations on details of the budget bill.
Mid March	Second and Third Readings of the budget bill. Approval of the budget bill. Budget submitted to the President for assent.

In presenting the Budget Statement, the finance minister will review the country's economic outlook and announce major proposals on both the revenue and expenditure side of the budget. This is a high-profile event lasting about 1-2 hours and broadcast live. At the conclusion of the Budget Statement, Parliament is adjourned for not less than seven days.

When it resumes, two days are allotted for the debate on the Budget Statement. This debate typically consists of the People's Action Party MPs expressing their support for the government's budget proposal, with some also calling on the government to "look into" certain specific areas. Opposition MPs will tend to have more critical commentary on the government's budget proposal.

At the conclusion of the two days, the Minister for Finance will thank the MPs for their comments on the budget statement and respond to the general thrust of the points raised by individual MPs. A vote is then taken on a resolution that "Parliament approves the financial policies of the government." The budget bill[4] is then introduced for its First Reading.

There is no "committee stage" in the parliamentary budget process whereby specialised committees look at individual aspects of the budget in detail, nor does the Singapore Parliament have any independent analytical capacity at its disposal when scrutinising the budget.

Box 6. Estimates Committee

The Estimates Committee is one of the select committees of Parliament. It is concerned with what economies, improvements in organisation and efficiency or administrative reforms can be implemented as well as suggesting the format in which the government's budget is presented to Parliament. For example, it discussed many of the reforms to the budget formulation process and budget implementation and government management practices as described in other sections of this article. However, it does **not** examine the substantive contents of the budget.

The Second Reading of the budget, which takes place in plenary session shortly following the conclusion of the First Reading, generally lasts from seven to ten days. During this stage, Parliament considers each ministry's request for funds. Members of Parliament may propose nominal cuts of SGD 100 to each ministry's estimates. By proposing a cut, an MP gets a platform to debate on the policies or details of programmes of that ministry. Aside from these nominal cuts, MPs may not introduce any proposal to increase or reallocate expenditures. Only the government may introduce such measures.

These debates also provide MPs with the opportunity to raise issues with the various ministries' programmes that may not be directly linked with the budget being considered. The respective ministers reply to the issues raised by individual MPs.

At the conclusion of the Second Reading, separate votes are taken on each ministry's budget request. Following their approval, the Parliament then approves the budget in whole, which constitutes the Third and final Reading of the budget.

3.2. The President of the Republic

In 1991, the Presidency of the Republic was transformed from one appointed by Parliament to one directly elected by the people for a term of six years. At the same time, the Presidency assumed a significant role as a fiscal guardian whereby the President enforces the constitutional fiscal rules described in section 2.1.1. His approval is required for any proposal to use past reserves for spending and he can veto budgets if he believes they threaten to use past reserves for spending. This is known as the "two-key" principle, as both Parliament (the government) and the President have to agree in order for past reserves to be used. It was viewed essential that the President had an independent and direct electoral mandate in order to be in a position to legitimately over-rule the will of Parliament (government). In exercising this role, the President must consult a Council of Presidential Advisers which was created concurrently.

Very strict requirements are enshrined in the Constitution in order to be eligible for election to the Presidency. The requirements aim to ensure that the holder of the office has sufficient financial expertise to exercise his role as fiscal guardian. The requirements include:

> "A person shall be qualified to be elected as President if he has for a period of not less than three years held office:
>
> a.) as Minister, Chief Justice, Speaker, Attorney-General, Chairman of the Public Service Commission, Auditor-General, Accountant-General or Permanent Secretary;
>
> b.) as chairman or chief executive officer of a statutory board …;
>
> c.) as chairman of the board of directors or chief executive officer of a company incorporated or registered under the Companies Act…with a paid-up capital of at least $100 million or its equivalent in foreign currency; or

d.) in any other similar or comparable position of seniority and responsibility in any other organisation or department of equivalent size or complexity in the public or private sector which, in the opinion of the Presidential Elections Committee, **has given him such experience and ability in administering and managing financial affairs as to enable him to carry out effectively the functions and duties of the office of President.**"

The Presidential Elections Commission referred to above is a three-member body including the Chairman of the Accounting and Corporate Regulatory Authority as one of its *ex officio* members. A candidate must also satisfy the Commission that "he is a person of integrity, good character and reputation." These criteria have resulted in instances where only one candidate was determined to be qualified by the Commission and thus was elected unopposed.

A Council of Presidential Advisers was established in 1991 as well. The Council comprises six members. Its current chairman is the chairman of the Singapore Stock Exchange. It is obligatory for the President to consult the Council before he withholds his approval to the budget. If the President withholds his approval against the recommendation of the Council of Presidential Advisers, then the Parliament may vote to over-rule the President with a two-thirds supermajority.[5] The recommendations of the Council of Presidential Advisers and the decisions of the President must be accompanied by an explanation of their conclusions.

A White Paper containing extensive provisions on how to operationalise the President's fiscal guardian responsibilities – specifically the government's information disclosure requirements – was approved in 1999. Previously, there had been disagreements about the scope and detail of such information disclosures.

The President has never had to use his power as fiscal guardian to enforce the constitutional fiscal rules. The power is however there – both in principle and in practical operational terms – to prevent any future government from acting in a fiscally irresponsible manner.

3.3. Conclusion

As noted above, the Parliament of Singapore has a limited role in the budget process due to specific constitutional restrictions on its power, the nature of the Singapore political environment, and the fact that Singapore follows the Westminster tradition where Parliament's role in the budget process is limited. The President of the Republic however has an unusual role in the budget process in that his principal substantive function is to act as a fiscal guardian.

Box 7. Auditor-General's Office

The Auditor-General's Office (AGO) is an independent organ of state which reports to Parliament. It reports on "instances of irregularities, non-compliance with rules, inefficiencies, wastage and extravagance observed during its audits." In addition, the AGO is increasingly concerned with performance and results audits.

An annual Report of the Auditor-General is presented to Parliament and is reviewed by its Public Accounts Committee. In recent years, the Report of the Auditor-General has typically contained 40 audit observations on average. These observations include loss or potential loss of public monies through overpayments and lapses; delay in refunding excess tax, deposits and trust money; late payment to suppliers; and other procedural and accounting lapses. Observations on performance and results are also made.

To review the audit observations, the Public Accounts Committee will generally hold two hearings to which senior officials from the relevant government ministries are called. The Public Accounts Committee then formally calls on ministries to take corrective action or otherwise be held to account. Its conclusions are published in a separate report.

4. Budget implementation and government management issues

This section provides brief overviews of the organisational structure of the government, the execution of budget appropriations, personnel management, financial management and reporting, and performance and results initiatives.

4.1. Organisational structure

The Singapore government consists of 15 ministries. The number of ministries and their respective competencies has remained fairly constant over the years. The government structure is composed of three types of organisation: ministry-headquarters, departments, and statutory boards. In principle, the ministry-headquarters is the core policy-making arm whereas departments and statutory boards are the subsidiary executive bodies that implement government policies. As of January 2006, there were 21 departments and 65 statutory boards in total.

The role of departments and statutory boards has evolved greatly over the years. Originally, departments carried out functions that were of a non-commercial nature whereas statutory boards (which used to be much fewer in number) carried out functions that were more commercial in nature, such as utilities services.

Over time, many of the statutory boards were corporatised and partially or fully privatised. At the same time, more and more departments were transformed into statutory boards. As such, they enjoy more flexibility in financial and personnel management, *i.e.* they are exempt from many of the central management controls which apply to departments. This increased operational independence is cited as the key motivating factor for the transformation of departments into statutory boards.

It is important to note that many of the statutory boards also have their own sources of income, sometimes in the form of novel fee structures: the Inland Revenue Authority of Singapore receives an agency fee based on the amount of taxes it collects.

The decision as to which departments to transform into statutory boards would appear to be based on a series of one-off, case-by-case judgments rather than specific and explicit criteria. For example, Singapore Customs is a department whereas the Inland Revenue Authority of Singapore is a statutory board reporting to the Ministry of Finance.

Each ministry is headed by a permanent secretary. In some cases, there may be a "second" permanent secretary who could be delegated with certain functions of the ministry or be responsible for special projects. Each department is headed by a director-general and each statutory board is headed by a chief executive. The Public Service Commission (see section 4.3 on personnel management) is responsible for nominating individuals to fill these positions. Almost without exception, they are career officials from within the civil service. They are not political appointments.

Singapore employs a "flow-through" mechanism to ensure constant renewal in these most senior positions with officials having a ten-year maximum tenure. Afterwards, they may be moved to another position within government or, more frequently, will join one of the companies linked to the government.

The statutory boards do in fact have boards of directors; they vary in size and are normally composed of relevant outside stakeholders, academics in the field, and government representatives. The boards are most often chaired by the permanent secretary of the "parent" ministry. The roles of the boards are set out in unique legislation governing each statutory board. In general, their roles are limited vis-à-vis traditional corporate boards. For example – as noted above – the Public Service Commission plays the key role in appointing the chief executives of statutory boards.

Box 8. Public Sector for the 21st Century (PS21)

The PS21 initiative was launched in 1995 to make the public sector more responsive to a growing economy and a better-educated and informed public. In essence, the initiative is designed to promote an attitude receptive to change within the public service.

The three-fold challenge in PS21 is described as:

- anticipating the future with scenario-based strategic planning;
- fostering positive attitudes among staff towards continuous change; and
- executing change as effectively and efficiently as possible.

A number of initiatives were implemented under the PS21 "umbrella", ranging from the establishment of work improvement teams (WITs) for enhancing work flows and the use of more e-technology in government services to initiatives to promote staff well-being.

A rather unique feature was the establishment of The Enterprise Challenge (TEC), a central fund for funding innovative and promising projects which are "experimental" in nature and which would ordinarily not be funded by public sector organisations.

4.2. Execution of budget appropriations

The budget is divided into 25 "heads". Each ministry (15) and each organ of state[6] (8) has its own head, reflecting their respective organisational boundaries. Public debt constitutes a separate head. Another separate head is devoted to "financial transfers"; this is the means by which any surpluses of the government are distributed. For example, the funding for the endowment funds came from this head.

Each head is divided by object of expenditure – *i.e.* running costs (manpower, transfers, and other operating costs) and development (capital) costs. Parliament approves appropriations at the level of heads – *i.e.* there are 25 separate legal appropriations. Virements between heads are not possible, except in instances when there is a transfer of functions between ministries. In such cases, the associated budgets can be transferred subject to Ministry of Finance approval. Virements between objects of expenditures within heads can be made; these are relatively common, reflecting the principle of "maximum discretion". In the case of statutory boards, no pre-approval from the Ministry of Finance is required for internal virements.

The budget also presents expenditures by programmes. These reflect the organisational boundaries within ministries (headquarters, departments, and statutory boards). Development costs are divided by individual projects. However, these are only for information purposes.

Singapore has a system of net budgeting, whereby expenditure budgets for services that are financed by user charges can fluctuate in line with amounts collected as user charges. The Ministry of Finance will provide supplemental budget authority in such cases. If the revenues fall short of what was projected, the organisation will have to make up for the shortfall from its own budget. If extra revenues exceed projections, the organisation will keep them. This only has a material effect on a few organisations. It would appear to operate well, reflecting the soundness of the revenue projections.

Appropriations in Singapore are considered "maximum" appropriations; there is no requirement to use them fully. Up to 5% of total appropriations can be rolled over to the next fiscal year. These roll-over provisions are often used in full, reflecting the risk averseness of government organisations described in section 2.1.6 on budget formulation. Rolled-over appropriations lapse if not used within three years.

The Ministry of Finance maintains a Contingencies Fund. It comprises SGD 2 billion in capital contingencies and SGD 1 billion in operating contingencies. Pending parliamentary approval, the Ministry of Finance (with the approval of the President) may extend advances to the ministries from the Contingencies Fund if the need for the supplementary budget allocations is urgent. The advances would have to be returned to the Contingencies Fund once the supplementary budget allocations are approved by Parliament. In addition, as exemplified by the roll-over of appropriations, government organisations generally create their own "internal" contingency funds during budget execution.

4.3. Personnel management

Traditionally, personnel management was exercised on a very centralised basis in Singapore through the Public Service Commission (PSC). The PSC appointed, promoted, transferred, dismissed and exercised disciplinary control over all public officials. These powers do not apply to statutory boards, except for their chief executives as noted in section 4.1.

The PSC is recognised as having been instrumental in instilling the ethos of meritocracy, impartiality, and incorruptibility which are the hallmarks of Singapore's modern civil service. This centralised model had however become cumbersome as an instrument for presiding over the entire civil service. In response, reforms were implemented in 1995 which created a four-level hierarchy of personnel bodies:

- The PSC itself;
- A Special Personnel Board;
- Senior personnel boards (5);
- Personnel boards (28).

The PSC retained responsibility for the most senior civil servants, including permanent secretaries, heads of departments and chief executives of statutory bodies, as well as the discipline of officers. The PSC is a body established by the Constitution. It presently has nine members. They are appointed by the President upon the advice of the Prime Minister for a five-year term in the first instance, which can be renewed. The secretariat for the PSC is provided by the Public Service Division (PSD) of the Prime Minister's Office.[7]

A Special Personnel Board assumed responsibility for the next level of senior officials. It consists of permanent secretaries, chaired by the Head of the Civil Service.

A set of five senior personnel boards assumed responsibility for the appointment of other professional staff (university graduates) in ministries. The five boards cluster together groups of ministries. Each board consists of the permanent secretaries of the respective ministries.

Each ministry has at least one personnel board responsible for support staff (non-university graduates). Ministries with large numbers of staff may have more than one such board. There are 28 boards in total for the 15 ministries and 8 organs of state. The boards have a total of two to seven members, including one representative from the PSD. Each board is chaired by a senior official of the respective ministry.

With the exception of the bottom-tier boards, this reform did not represent a complete decentralisation of authority from the PSC to each individual ministry. It was in fact a compromise between full delegation and the old centralised model. Over time, however, a practice developed whereby individual board members assumed responsibilities for the devolved personnel actions concerning their respective ministry. The full board then agreed to it as a formality. Later, the legal framework was changed to take account of this practice. The boards now formally nominate one of their members to deal with the personnel actions of their respective ministry. The system of boards, however, still remains officially in place.

Box 9. Scholarships

Scholarships are an important vehicle for the recruitment of young officials to the civil service. The scholarships are highly competitive. In order to qualify, a student must demonstrate outstanding academic and non-academic achievements, pass a rigorous psychological test, and be successfully interviewed by a scholarship selection panel. The scholarships are offered by the PSC itself, individual ministries, departments, and statutory boards, as well as government companies. Many of the "decentralised" scholarships are administered by the PSC, reflecting its focus on the recruitment and development of civil servants. In total, over 200 public sector scholarships are offered each year. Scholarships are available both for study in local institutions as well as in foreign universities.

The scholarships have two unique features. First, the students commit themselves to work for the government for a minimum time, often six years, in return for receiving the scholarship. This is referred to as a "bond". Second, there are extensive activities undertaken to "induct" the scholarship-holder into the public sector, including team-building exercises and assignment of mentors.

The scholarships are highly prized in Singapore and are to a great extent responsible for the high caliber of its civil servants.

The PSD sets the overall framework for human resource management decisions – such as promotions and appointments – taken by the personnel boards. Each board has some degree of flexibility, but decisions taken must be in line with a general framework established by the PSC which focuses on adhering to meritocracy, consistency and objectivity in personnel actions. Individuals may appeal against the decisions of the boards to an Appeals Board. If the appellants are still unhappy over the Appeals Board's decision, they can lodge a further appeal to the PSC. The decision of the PSC is final.

Ministries can hire staff according to a range of employment schemes, including flexible (time-limited) contracts or a permanent basis of employment. Depending on the requirements of the job and the ministries' talent management practices, employees could first be hired on a contract basis before being made permanent. Most staff are presently employed on a permanent basis although the government has a stated policy of increasing the share of contractual employees. The boards also have flexibility in setting the salaries for positions, within a range decided centrally by the

PSD. In exceptional circumstances, the boards can apply for exemptions from the PSD range.

Great emphasis is placed on rotating high-potential officers between ministries and identifying "future leaders" in the civil service. Officers in the Management Associates Programme would be seconded to another ministry two years following their initial appointment. They would generally be on secondment for a period of two years. After this, their career path would be evaluated. The Public Service Commission plays the key role in this evaluation. The official would either rejoin his/her original ministry following the evaluation, or be inducted into the Administrative Service.

The Administrative Service is the elite corps of the Singapore civil service with approximately 230 members. The Service includes both present holders of the highest positions in the civil service as well as younger talent who have been identified as having potential to take on those positions in the future. As such, they would move through several senior positions government-wide on their career track. The Service maintains a high standard by "flowing out" officers who do not meet the stringent requirements of the Service.

4.3.1. Remuneration

The remuneration of government officials – both elected officials and civil servants – follows four principles:

- To keep pace with market rates to attract and retain a fair share of talent;
- To have a flexible wage system that can respond to economic conditions;
- To strengthen the link between pay and performance;
- To pay clean "pure cash" wages, *i.e.* to avoid hidden perks.

The Singapore government is committed to paying salaries competitive with the private sector. Annual salary reviews are conducted to compare with private sector benchmarks. In fact, salaries are pegged to private sector equivalents. For example, the salary of accountants in the government is pegged to salaries of accountants in the private sector. Where such a direct link is not possible – as is often the case in the public sector – the salaries are pegged to professions requiring similar academic qualifications.

In the first instance, salaries may go up (or down) on a temporary basis. If the private sector increases (decreases) become sustained – as opposed to being a short-term "blip" – the increase (decrease) is integrated into the permanent fixed salary. The principle is that the government should keep pace with the private sector, not lead it. The salary adjustments are administered centrally by the PSD.

The definition of the comparable profession can become an issue; this applies especially to certain groups of professionals – IT professionals, for example. Whereas a broadly defined group of professionals may be keeping pace with their private sector counterparts, some sub-groups may not. In such circumstances, carve-outs are made for these professions. Ministries can also propose salary adjustments for any sub-group of professionals if they can demonstrate that a significant differential exists with the private sector, and they have recruitment and retention problems.

Box 10. Ministerial salaries

Ministerial salaries are pegged to the salaries of the eight highest earners in six professions – bankers, accountants, engineers, lawyers, CEOs of multinational corporations based in Singapore, and CEOs of local manufacturers. The benchmark is pegged to two-thirds of the median salary in this group of persons. This figure is based on income tax returns for the respective individuals.

Singapore does not publish the salaries that result from this formula. Using publicly available information, it can be deduced that annual ministerial salaries likely range between USD 500 000 and USD 1 500 000 based on the seniority of the post. A similar principle is applied for other senior officials.

Singapore views high ministerial pay as essential in order to attract the highly qualified candidates, encourage their retention, and deter any tendency towards personal corruption.

About one-fourth of total annual salaries are linked with fluctuations in the economy: if the economy improves, salaries go up; if the economy goes into a recession, salaries go down. This system was introduced in 1988. However, it is more a principle than a regular practice. There are three components to it. First, up to the equivalent of two months salary is officially designated as an "annual variable component". It had been paid in full since its inception until the Asian economic crisis in 1998 when it was reduced to three-fourths of a month, *i.e.* a reduction of one and one-fourth months. Since then, the amount has varied each year depending on the state of the economy. Second, the payment of the "13th month" – which is a long established practice in Singapore – can be cancelled in exceptional economic conditions. This has never occurred. Third, a special bonus can be granted if economic performance is especially good. Payments have typically ranged between one-fourth and one-half month.

It should be emphasised that salaries are not linked precisely to GDP developments; rather they are linked to the general state of the economy, of which GDP growth is one factor out of many. In deciding on salary adjustments, PSD takes into account GDP, unemployment rates, the state of the labour market, and other economic projections as well as "internal" factors such as staffing ratios, resignation rates, and vacancy rates.

The government has progressed towards a pay-for-performance model since 2000, when a performance bonus was introduced across the civil service. The bonus varies from the equivalent of one-half month to three months salary. The great majority of staff receives a bonus of one-half to one month. Staff who just meet the job requirements will receive no performance bonus. Annual seniority-based salary increments (step increases) have also been replaced by merit-based increments for most university graduate officers. A nominal increase is granted to staff who just meet the job requirements. The withholding of performance bonuses and salary increments is however very rare. The performance evaluations are first carried out by immediate managers, then deliberated by a ministry ranking panel and finally endorsed by the respective personnel boards to ensure impartiality and consistency.

The fourth principle – to pay clean "pure cash" wages, *i.e.* avoid hidden perks – is now well embedded in the Singapore system. Previously, officials may have received housing benefits and car benefits in addition to their salary. This has now been "monetised", giving them control over how their "fringe benefits" are spent.

4.4. Financial management and reporting

The accurate measure of the costs of government programmes in order to allow informed decisions on the efficient use of resources is a key budgeting principle in Singapore. Singapore introduced accrual accounting in 1999 and a year later introduced a novel system called net economic value (NEV) to capture the cost of capital.

In moving to accrual accounting, Singapore experienced the typical challenges encountered by OECD countries: upgrading IT systems, enhancing accountancy skills, and assembling an accurate assets register. Singapore decided to adopt historical value as the basis for recording its assets. The introduction of accrual accounting has greatly raised the awareness of non-cash costs and encouraged ministries to make more informed decisions based on full cost.

It should be noted that Parliament approves the budget on a cash basis and there are no plans to change this. Cash is considered the most direct form of control. Budget information on an accrual basis is also available but it serves primarily as an internal measure to reflect the amount of resources that ministries expect to consume on a recurrent basis.

The system of net economic value (NEV) is conceptually similar to economic value added (EVA) as used in the private sector. The overall objective is to take account of the government's cost of capital and thus measure how well total resources are utilised by an organisation. In short, the amount of cost of capital is subtracted from an organisation's net operating balance. The result is normally negative in the public sector context. The focus in Singapore is to see the trend in NEV developments from year to year. To obtain improvements in NEV from one year to the next, an organisation has to increase revenues, reduce operating costs and/or reduce capital costs. Conversely, if the year-on-year changes in NEV show deterioration, this would signal problems with an organisation's financial management.

The cost of capital used is not uniform throughout the government but takes account of different sectoral benchmarks where available, reflecting reference levels of debt and equity. This applies especially to the more commercially-oriented statutory boards. Singapore officials report that the introduction of NEV had given rise to a much greater appreciation for the government's cost-of-capital; it is no longer viewed as a "free good". In concrete terms, organisations have disposed of surplus assets in order to improve their NEV and have been more careful in adding new assets or even accepting donations of capital assets.

The government does not make publicly available any in-year financial reports. It is felt that there is no demand for such information. The only publicly-available document on the government's implementation of the budget is the annual financial statements. The audited financial statements are available within three months of the close of the fiscal year, which is the official benchmark that the Auditor-General has set himself.

Singapore employs a centralised payment and receipt system. Individual agencies do not have their own bank accounts, notional or otherwise. There is one centralised account. It is a highly advanced system with 99% of all payments being made electronically and 80% of all receipts being collected electronically. Singapore relies on the banking system – giro system – for non-electronic transactions; it does not have its own "retail" treasury offices. Payments are made rapidly, overnight in most cases.

There are no incentive schemes for promoting good management practices, for example levying or paying interest where differences occur between actual cash disbursements and a determined apportionment schedule. Although there are no explicit capital charges in Singapore, the NEV system essentially serves the same purpose.

4.5. Performance and results

Singapore makes extensive use of performance and results information in the budget process. At present, work is focused on further developing outcome indicators. This is a work in progress in Singapore as it is elsewhere.

Singapore's objective is not to directly link funding with performance and results indicators. It is rather to inform resource allocation decisions. In fact, the very use of the budget ceilings ("block budgets") is acknowledged to explicitly weaken any such linkages from the perspective of the Ministry of Finance.

The Ministry of Finance does not "impose" specific performance and results indicators on line ministries. Its role is to create the appropriate framework for what types of indicators should be developed by line ministries. Performance and results information does however form an integral part of the budgetary dialogue between the Ministry of Finance and line ministries. The philosophy is that line ministries should take ownership in the area of performance and results in the same manner as they do for the allocation of their budget ceilings ("block budgets"). It is recognised that the principal uses of performance and results information are within line ministries.

There are three principal external "venues" for performance and results information; first, the budget documentation itself. Each ministry's desired outcomes are listed together with key performance indicators, which often tend to be output-oriented at present. (Interestingly, the indicators often include the standing of Singapore in rankings against other countries in the respective areas.) The performance and results information in the budget uses a multi-year horizon: actual results for the previous two years, estimates for the current year, and a projection (target) for the forthcoming year. The emphasis is on performance trends. There is no narrative commentary on this quantitative information.

Second, individual government organisations often publish detailed annual reports where a greater number of performance and results indicators are published and often accompanied by a narrative discussion.

Third, a flagship initiative known as the "ministry report cards" is currently being developed. Each ministry will complete them in a standardised structure prescribed by the Ministry of Finance. The Ministry of Finance will provide commentary on line ministries' report cards. This would include commentary on how demanding their targets were and on the management of resources. The report cards are then submitted to the cabinet for review. As the report cards are still in development, their contents are not made public.

Box 11. Ministry report cards

The ministry report cards are short – the equivalent of two A4 pages – and are composed of five components.

Part I of the report discusses the past year's performance and results achievements and operational highlights in bullet-point form.

Part II consists of the key performance indicators. Only outcomes-based indicators can be used and ministries can have no more than ten such indicators. This is to limit them to a critical few in order to preserve their clarity and focus. Part II will show the actual achievement compared to the year's target. It will also be colour coded: green, yellow and red as well as blue which will represent performance exceeding the target by more than 10%. The report card must also show the targets for the next year and an indicative target for five years ahead, in order to show the general future orientation of the ministry and to prompt it to plan ahead.

Part III summarises the ministry's resources management in tabular format. For the year under review and the previous two years, first it will show "budget marksmanship" for both operating and capital expenditure – *i.e.* the percentage of budget appropriations that were used during the year. The second will show the change – positive or negative – in the NEV for the ministry. The third will show the manpower (head count) for the ministry as well as a year-on-year percentage change.

Part IV discusses the ministry's key strategies and initiatives for the next five years or further. This is to foster a forward-looking attitude in government organisations. Again, this is to be in bullet form and should be similar in length to Part I.

Part V is a summary box on organisational excellence and innovation. This refers to certification of the ministry for schemes such as ISO-9001, etc., with a target and actual for the current year and the previous year.

In moving towards a focus on outcomes, there are concerns that outcomes by themselves are not sufficient to drive further improvements. For example, infant mortality is a principal outcome indicator for the Ministry of Health. At present, infant mortality in Singapore is the second lowest in the world. In such instances, the practice is to review the indicators frequently to ensure their relevance for driving further improvement. It would appear that this could only mean focusing on more specific outcomes and thus drawing back from the comprehensiveness of the outcome indicator, and/or using a greater number of indicators which could also draw back from their usefulness.

It should be noted that performance and results information does not determine salaries. Rather, performance bonuses are determined by performance appraisals.

5. Central Provident Fund

5.1. Mandatory rates of contribution

The Central Provident Fund (CPF) is financed by mandatory payroll contributions from both employers and employees. The combined contribution rate is currently 33%, with 20% paid by the employee and 13% by the employer.

The contribution rates have varied and have been used as an economic instrument over time. For example, in the 1980s the contribution rates were 50% of payroll (paid equally by employers and employees) before the employers contribution rate was reduced by 15 percentage points to 10% of payroll in response to an economic downturn and to maintain Singapore's competitiveness.

The contribution rate also varies by age group: it drops significantly for people aged 55 and above in order to make hiring elderly workers more attractive and therefore keep them in the labour market.

The contributions – as well as the interest earned and withdrawals – are tax deductible. As a result, a maximum limit on contributions is made in order to prevent them from being used as a tax avoidance scheme.

The CPF is responsible for the collection of the payroll contributions, *i.e.* they are not collected through the tax system.

5.2. Three accounts

Each member has three personal accounts – housing, retirement, medical[8] – with the Central Provident Fund where the contributions are deposited. The accounts are the personal property of the individual and any remaining balances form part of his/her estate upon death. Different shares of the total contribution go to each of the three accounts, and these shares vary by age group.

For the largest age group, the 33% payroll contribution is credited to the three accounts as follows:

- Housing account: 20%.
- Retirement account: 6%.
- Medical account: 7%.

It is striking to note that the housing account receives nearly two-thirds of the total contributions. When CPF contribution rates were reduced in the 1980s, it was the share allocated to the retirement account which bore the brunt of the cut. The housing account was largely spared. Individuals have also been able to use their retirement account to pay for housing expenses in special circumstances. This reflects the importance accorded to home ownership in the politics of Singapore. The minister responsible for housing noted that the home ownership policy "ha[d] strengthened our social cohesion and our sense of belonging to this country."

In addition to the mandatory contributions, individuals can make voluntary top-up contributions for themselves and immediate family members, subject to a maximum ceiling.

The government has also used budget surpluses to "top up" individual accounts. In the past, the same amount was distributed to all members' accounts. Recently, a policy of making larger distributions to poorer members' accounts has been instituted. These are however *ad hoc* one-off decisions rather than a distinct feature of the CPF system.

5.3. Rate of interest

The account balances earn a nominal rate of interest which is pegged to the interest paid on short-term bank deposit rates. The formula weighs the interest rates on demand savings accounts (20%) and twelve-month fixed deposits (80%) as offered by the major local banks. It is reviewed quarterly.

The Central Provident Fund guarantees the payment of a minimum annual interest rate of 2.5% on balances in the housing account. Balances in the retirement and medical accounts earn an additional 1.5% above the rate paid for housing account balances. These low levels of interest rate need to be viewed together with the tax advantages of the CPF and other concessionary arrangements as discussed below.

5.4. Housing account

About 84% of Singaporeans live in public housing estates. Almost universally, these are owner-occupied on the basis of 99-year leases granted by the Housing and Development Board (HDB) which administers the estates.[9]

CPF members may withdraw the accumulated funds from their housing accounts and take up a housing loan to buy a property. They can continue to use the regular contribution to their housing account to pay the monthly mortgage, *i.e.* servicing the loan need not involve any additional out-of-pocket expenditure if the monthly contribution to their housing account is sufficient to repay the monthly housing mortgage.

The HDB – which has a symbiotic relationship with the CPF in this area – makes available concessionary loans for the purchase of a first home. About 90% of Singaporeans qualify for such concessionary loans. The interest rate on these loans is pegged to 0.1% above the interest rate paid on CPF balances. The loans are for up to 30 years.

Concessionary rates are not available on subsequent mortgages. In the past, HDB had also disbursed loans at market interest rates to homebuyers who did not qualify for concessionary loans. However, this practice ceased in January 2003 when the HDB loan market was opened up to commercial banks.

In addition to the concessionary interest rate, several CPF housing grants schemes are in operation to promote home ownership (summarised in Box 12). These grants are lump-sum payments which are deposited in the member's CPF housing account and are used to support the home purchase by reducing the amount of loan financing required.

At the end of their working lives, members should have fully paid back their housing loan and thus be relieved of housing costs in their retirement. At this time, the total mandatory contribution to the CPF is reduced and no part of it is allocated to members' housing accounts.

Such a large part of members' CPF savings is channelled to housing during their working lives that many find themselves "asset rich and cash poor" at the time of retirement. In response, the government is promoting reverse mortgages and allowing the elderly to sell their existing apartments and buy smaller ones.

It should be noted that members are not required to use their housing account for the purchase of housing. Members can leave their contribution in the account where it earns interest as described above until they retire. Members can also transfer contributions to their retirement account – up to the "minimum sum" amount (see below) – where it earns a higher rate of interest. They can also invest part of their contributions in alternative investment options as described below.

Box 12. CPF housing grants

Married couples qualify for a grant of SGD 30 000 at the age of 21. Eligible singles who are at least 35 years old receive around one-third of the amount.

An additional SGD 10 000 is granted to married couples who choose an apartment within two kilometres of the residence of their parents.

Lower-income families which have at least one member who has held a job continuously for the previous two years qualify for a special grant of up to SGD 20 000. The income ceiling for this grant is defined generously so that nearly half of all first-time homebuyers qualify.

5.5. Retirement account

The Singapore government rejected from the very beginning the notion of pay-as-you-go social security systems as found in many OECD countries for financing retirement benefits. Instead, each individual is to build up personal savings over his/her working life in order to be able to draw on these funds during retirement. This also avoids problems of inter-generational inequity.

As noted above, the CPF retirement account pays interest that is 1.5 percentage points higher than the housing account. About one-fifth of the total CPF contribution is channelled to the retirement account and has been rising in recent years.

The official retirement age in Singapore is 62 years of age. Somewhat confusingly, the official trigger for the release of CPF savings is 55 years of age which used to be the official retirement age in Singapore. Rather than raising the CPF "retirement" age to align it with the higher official retirement age, a system of "minimum sums" was created which *de facto* bridges the gap between the two.

The "minimum sum" is currently set at SGD 90 000 but will be raised gradually to SGD 120 000 (in 2003 dollars) in 2013. This amount will be used to provide monthly payouts to retirees from the age of 62 until the minimum sum is exhausted. As the CPF board notes, "a Singaporean at age 62 today can on average expect to live another 20 years. The monthly payouts will last around 20 years for most members from their retirement at age 62." The SGD 90 000 would provide a monthly income stream of SGD 711 for 20 years. This represents about one-third of current average salaries in Singapore.

At the age of 55, CPF members have three options to invest their CPF minimum sums:

- Buy a life annuity from a participating insurance company;
- Place it with a participating bank; or
- Leave it with the CPF.

If a CPF member buys a life annuity, he/she will receive a monthly income for life from the age of 62. If the member leaves the CPF minimum sum with a participating bank or with the CPF, he/she will receive a monthly income from the age of 62 until the CPF minimum sum is exhausted. Most members leave the money with the CPF.

If a member's balance in the retirement account is less than the minimum sum, he/she can transfer money from the housing account (if any) and can pledge his/her property (if any) to make up the shortfall. At age 55, 40% of CPF members have sufficient funds to set aside the minimum sum.

Any amount in the housing account and the retirement account in excess of the minimum sum – and in excess of the "required amount" for the medical account (see below) – may be withdrawn at the age of 55.

There is concern in Singapore about the sufficiency of the amounts provided through members' CPF retirement accounts for providing a sustainable and suitable retirement. This is the consequence of such a large part of the total CPF contribution going towards housing. Steps being taken to meet these concerns include the raising of the share of the CPF contribution going towards the retirement account and the raising of the minimum sums over time.

5.6. Medical account

Singaporeans enjoy excellent health outcomes; Singapore has one of the highest life expectancies and lowest infant mortality rates in the world. At the same time, total health care expenditures are very low by international standards: 3.8% of GDP. Government expenditure accounts for only about one-third of this amount, or 1.2% of GDP.

The financing philosophy of Singapore's health care system is based on individual responsibility and self-reliance. Patients are expected to directly pay a large part of their health care expenses themselves. This is to prevent waste and abuse of the system and avoid health care over-consumption.

To assist individuals in meeting their health care expenses, a medical account was added to the CPF system in 1984. Currently, about one-fifth of the total CPF contribution is channelled to the medical account, an approximately similar sum as is channelled to the retirement account.

Box 13. Alternative investment options

In 1997, the CPF introduced the CPF Investment Scheme which allows members to use the balances in their housing account (if any) and retirement account to invest in selected financial instruments as well as non-owner-occupied real estate. The financial instruments include fixed deposits, Singapore government bonds, statutory board bonds, bonds guaranteed by the Singapore government, annuities, and endowment insurance policies. Balances can also be invested in corporate shares. Strict criteria however apply to the use of retirement account funds for such investments (selected broad-based indices only); more liberal criteria apply towards the use of housing account funds.

The use of these alternative investment options is surprisingly limited, with only one-quarter taking advantage of them. Members seem not to be confident about investing on their own or do not wish to risk their savings. They prefer to keep their money with the CPF and earn the guaranteed risk-free interest.

Members can use the accumulated savings in their medical account to fund personal or immediate family hospitalisation expenses. Specific withdrawal limits are set for hospital charges and for surgical operations. These limits are in line with the costs of the most basic care offered. Anything in excess of this must be paid directly out-of-pocket by the patient. This is to prevent the premature depletion of the accounts, to encourage patients to choose types of hospital accommodations appropriate to their financial means, and to exert a control on "medical inflation".

In addition to hospitalisation expenses, the savings in the medical account can be used to cover certain outpatient treatments. This is however approached with great care and is limited to expensive outpatient treatments, such as chemotherapy, radiotherapy treatments, and chronic illnesses such as diabetes. The medical account cannot be used to pay for doctors' visits or outpatient clinics. These costs must be paid out-of-pocket by the patient for the reasons described above.

Members may also use their medical account to purchase insurance against catastrophic illness and large medical bills.

Interestingly, a maximum was placed on the amounts that could be held in the medical accounts in order to prevent members from being "overly prudent" and accumulating balances in their medical accounts in excess of reasonable and foreseeable expenses.

At the age of 55, when CPF savings (housing and retirement account) can be withdrawn, members are obliged to set aside a required amount in their medical account. This is to enable members to have enough savings to meet their health care needs during old age. This required amount is currently set at SGD 8 300 and will increase each year until it reaches SGD 25 000 (in 2003 dollars) by 2013. This is in addition to the minimum sum required for the retirement account.

Table 1. Required amounts and minimum sums

	Now	In 2013 (in 2003 dollars)
Retirement account	SGD 90 000	SGD 120 000
Medical account	SGD 8 300	SGD 25 000

If the balance in the medical account is not sufficient, money in excess of the retirement account minimum sum – if available – needs to be transferred to the medical account. If the balance in the medical account exceeds the minimum sum, the difference will be transferred to the member's retirement account.

It should be noted that the government has a separate fund – Medifund, an endowment fund – where the interest is available to pay for the medical care of destitute patients.

Notes

1. This is a general overview of the fund. More details and nuances of the CPF are outlined in section 5.
2. All sums in this report are expressed in Singapore dollars (SGD) except where otherwise noted. Approximate currency rates are as follows (May 2006): SGD 100 = USD 65 = EUR 50 = JPY 7 100.

3. "Organs of state" (discussed in section 4.2) are not included in the block budgeting system. Their budgeting continues on the "old" line-item model known as the MIF (macro incremental factor) budgeting. Ministries whose capital spending is volatile and "lumpy" (generally smaller ministries) receive a "block budget" for their operational expenditure only. Special appropriations are made for capital.

4. To aid understanding, the term "budget bill" is used throughout this section whereas the official parliamentary term is "supply bill".

5. In 1994, the Constitution was amended so that the President could not veto any expenditure deemed necessary for "defence and security measures". The Permanent Secretary of the Ministry of Defence and the Chief of Defence Forces must however certify that such expenditure is necessary for the defence and security of Singapore.

6. The eight organs of state are bodies established by the Constitution of Singapore. They are the Civil List for the President, Presidential Councils, the Cabinet, the Attorney-General's Chambers, the Public Service Commission, the Parliament, the Auditor-General, and the Judiciary.

7. The President can veto the recommendations of the Prime Minister as to appointments to the PSC. He can also veto the nominations received from the PSC via the Prime Minister on the appointment of senior officials. This is similar to his fiscal guardian role discussed in section 3.2.

8. This terminology is used for ease of understanding. The formal names of the three accounts are Ordinary, Special and MediSave respectively. Strictly speaking this use of terminology is not correct as the housing (ordinary) account can be used for other purposes (retirement) as is discussed later in this section.

9. The 99-year leases cover the specific apartment unit. The land and common areas of the estates remain the property of the HDB.

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