

Budgetary Governance Principles

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CESEE Senior Budget Officials, The Hague, 26-27 June 2014

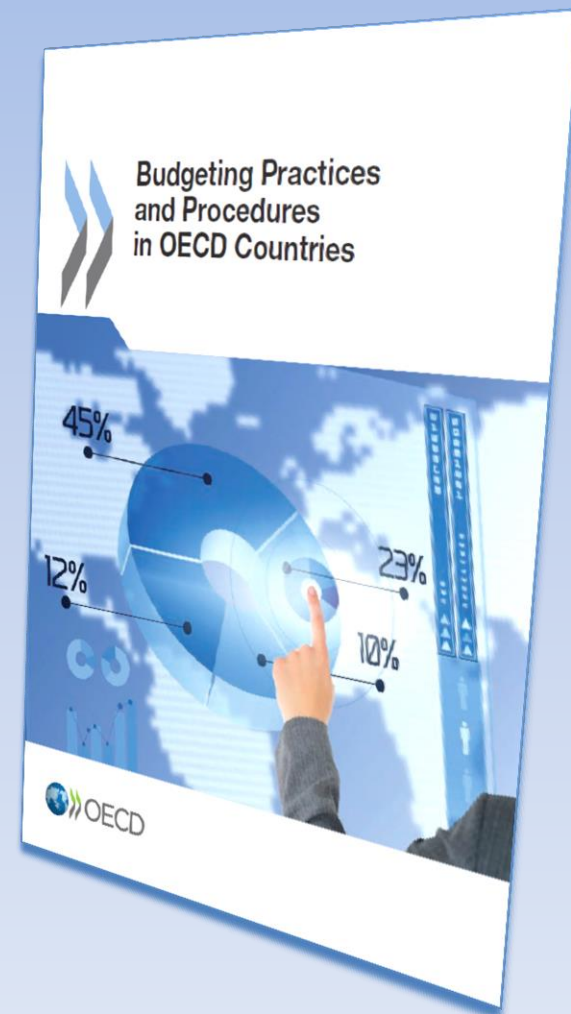
Overview

- Background to the Budget Principles
- Consultation process – key contributions
- The updated Budget Principles
- Moving forward...

Budget Principles – “Why Now?”

- 6 years of economic crisis in most OECD countries
- Several years of fiscal consolidation still lie ahead
 - Ongoing ‘austerity’ poses challenges for society, for governments and public administrations
 - Do traditional budgeting models provide the right tools to meet these challenges?
 - What lessons can we draw from experience of the past 6 years?
 - Does this reinforce, or challenge, the earlier lessons and ‘good practices’ we had drawn from earlier experiences?

OECD guidance and analysis of budgetary frameworks



Towards Good Budgeting Principles?

- as discussed at last year's CESEE SBO in Riga

1. **Top-down budgeting** – setting aggregates first
2. Clear and sensible **fiscal rule, or rules**
3. Medium-term expenditure framework
4. Transparency – “update and upgrade” of Best Practices
5. **Performance** dimension of budgeting
6. Objective and rigorous budgetary forecasts
7. A culture of evaluation, **prioritisation** and value-for-money
 - regular **Spending Reviews?**
 - PPPs versus traditional capital procurement
8. A participative budget formulation process
 - Stronger, **year-round** engagement with **parliament?**
 - Role for **Independent Fiscal Institutions?**
9. What should be added? - or what taken away?

Consultation process

- First draft document prepared in autumn 2013
- Presented at regional and thematic SBO meetings
 - LAC-SBO, MENA-SBO, Performance & Results, Accruals
 - OECD-Korea Policy Center, SEA Regional Network
- Open consultation via OECD website
 - Country responses from OECD and further afield
 - Institutional responses from WB, IMF, GIFT
 - Individual responses

Key Feedback Received

- Most – very positive and welcoming of the initiative
- Some caution against being “over-prescriptive”
 - Be sure to respect national, cultural, institutional divergences
- Additional principles proposed
 - Budget execution
 - Capital budgeting
- Scope for streamlining some proposed principles
 - Clear fiscal objectives + top-down budgeting
 - Alignment with strategic plans + medium-term dimension
- Some clarifications, qualifications
- Some closer alignment with other international norms

The Updated Budget Principles

1. Budgets should be managed within clear, credible and predictable limits for fiscal policy.
 - a) The starting point – without it, all other policy objectives suffer
 - b) “Fiscal rules” helpful for some, not necessary for others

2. Budgets should be closely aligned with the medium-term strategic priorities of government.
 - a) “Other side of the coin” – matching available resources with priorities and plans – “top down” rather than traditional “bottom up” approach
 - b) Medium-term expenditure framework – important tool

The Updated Budget Principles

3. The capital budgeting framework should be designed to meet national development needs in a cost-effective and coherent manner.
 - a) Grounded in appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities
 - b) Neutrality in assessing PPP or Traditional Infrastructure Procurement
 - c) Elements of a national framework for public investment

4. Budget documents and data should be open, transparent and accessible.
 - a) Clear, factual budget reports to inform all key budget stages
 - b) “accessibility” – open data formats, citizen’s budget or summary
 - c) Design and use budget data in support of open government, integrity, evaluation and policy coordination across levels of government

The Updated Budget Principles

5. Debate on budgetary choices should be inclusive, participative and realistic.
 - a) Beyond “access” to “engagement”
 - b) Primary role of parliament – *ex ante* as well as *ex post*
 - c) a role for citizens, CSOs also – in contributing to a realistic debate about trade-offs and opportunity costs

6. Budgets should present a comprehensive, accurate and reliable account of the public finances.
 - a) Include all expenditures and revenues - “budget sincerity”
 - b) Full national overview: levels of government, whole public sector
 - c) Full budget accounting: either accruals or cash, but providing complementary information needed to present a full picture

The Updated Budget Principles

7. Budget execution should be actively planned, managed and monitored.
 - a) Budgets as authorised should be implemented fully and faithfully
 - b) Clear regulation of roles for execution, implementing and accounting
 - c) Single treasury fund – minimise special-purpose funds and ear-marking
 - d) Some flexibility for virement can promote efficient and value-for-money

8. Performance, evaluation and value for money should be integral to the budget process.
 - a) Performance information: routinely presented in a way which informs, and provides useful context for, the budget allocations
 - b) Should clarify – not obscure or impede – accountability and oversight
 - c) Regular evidence-based evaluation and review of programmes
 - d) *Ex ante* evaluation of substantive new policy proposals
 - e) Periodic review of government's expenditure priorities

The Updated Budget Principles

9. Longer-term sustainability and other fiscal risks should be identified, assessed and managed prudently.
 - a) Promote resilience of budgetary plans
 - b) Clarity about identification and management of fiscal risks
 - c) Regular long-term sustainability / inter-generational report, with near-term and longer-term policy messages

10. The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous quality assurance, including independent audit
 - a) Quality and integrity of budgetary forecasts and fiscal plans
 - b) Role for IFIs or other Institutional mechanisms for impartial input to budgeting
 - c) internal auditing within all ministries and public agencies
 - d) Fundamental role of Supreme Audit Institution as guardian of public trust: its reports should be aligned with budgetary cycle, and it can enhance quality of performance accountability frameworks more generally.

updated OECD Principles of Budgetary Governance

