BUDGETARY PRINCIPLES AND PRACTICES

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OECD HAS DRAFTED 10 PRINCIPLES OF BUDGETARY GOVERNANCE

• The principles cover all phases of budgeting, including parliaments and independent fiscal institutions

• After review by stakeholders, the principles will be submitted for approval and may become OECD guidance

• IMF has revised its fiscal transparency code, and the PEF (Public Expenditure and Financial Accountability) Project is revising its diagnostic instrument

• The three instruments overlap, but have different emphases: OECD focuses principally on budget procedures, IMF on fiscal policy, and PEFA on financial management

• OECD’s principles enable a country to assess whether its budget process conforms to recommended practices

• It can be used to prod countries to remedy deficient practices

• Over time, the principles may become authoritative statements of OECD policy
KEY OBJECTIVES OF OECD PRINCIPLES

1. Fiscal policy and Control of Budget Aggregates
   Principle 1. Fiscal Policy should be managed within clear, credible and predictable limits
   Principle 2. Top-Down budgetary management should be applied to align policies with resources
   Principle 4. Budgets should be forward-looking. Giving a clear medium-term outlook
   Principle 9. Longer-term sustainability and other fiscal risks should be identified, assessed and managed prudently

2. Alignment of Programs and Priorities with Budget Decisions
   Principle 3. Budgets should be closely aligned with government-wide strategic priorities
   Principle 8. Performance evaluation and value for money should be integral to the budget process

3. Open, Transparent Budgeting
   Principle 5. Budget documents and data should be open, transparent and accessible
   Principle 6. The budget process should be inclusive, participative and realistic

4. Integrity and Accountability
   Principle 7. Budgets should present a true, full and fair picture of the public finances
   Principle 10. The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous, independent quality assurance
CRITERIA FOR ASSESSING THE PRINCIPLES

Each principle can be evaluated in reference to four sets of criteria.

Current Practice. The extent to which the procedures it embodies conform to or deviate from existing budget practice.


Effectiveness. What has been the experience of countries that have adopted recommended practices?

In drafting the principles, OECD was influenced by these experiences.

Parliamentary Role. The role of Parliament in providing legal support for the principle and overseeing its implementation.

The impact of the principle on parliament’s role in budgeting.

The IFI Role. The contribution IFIs can make to achieving the principles.

The potential impact of the principles on defining the role and influence of IFIs.
Principle 1. Fiscal policy should be managed within clear, credible and predictable limits

Principle 2. Top-down budgetary management should be applied to align policies with resources

Practices

• Most OECD countries have fiscal rules to limit debt, deficits or total expenditures
• CBAs usually provide fiscal guidance before agencies submit budget requests

Effectiveness

• Fiscal rules were shunted aside during the fiscal crisis
• Rules cannot be effective if they ignore economic cycles
• Rules generally have lacked enforcement mechanisms

Parliament

• Some parliaments establish the legal framework for adoption of fiscal rules by government
• Fiscal rules may encourage narrow amendments that have little impact on fiscal assumptions

IFI

• IFIs have a critical role in reviewing the government’s economic and fiscal assumptions
• Efforts to enforce fiscal constraints will strengthen IFI influence in budgeting
Principle 4. Budgets should be forward-looking, giving a clear medium-term outlook

Principle 9. Longer-term sustainability and other fiscal risks should be identified, assessed and managed

Practices
• Most OECD countries connect the annual budget with a medium-term framework (MTEF)
• Many countries publish long-term fiscal projections based on current budget policies

Effectiveness
• MTEF often functions more as a projection than a constraint on future budgets
• Few governments use long-term projections in making current budget decisions

Parliament
• OECD countries differ in the extent to which parliament debates or votes on the medium-term framework
• Parliaments have much more information on the future impacts of legislative actions

IFI
• Lengthening budget horizons strengthens IFI relevance on government fiscal and program policies
• Successful IFIs operate in multiple time zones, linking current and future budget issues
Principle 3. Budgets should be closely aligned with strategic priorities
Principle 8. Performance, evaluation and value for money should be integral to budgeting

Practices
• A medium-term perspective facilitates reallocation of higher priorities
• OECD countries produce and publish vast amounts of performance information

Effectiveness
• Reallocation is very difficult and budgeting still is incremental
• Some countries have had successful spending reviews
• Performance information is underused in budget decisions

Parliament
• To facilitate strategic policymaking, it may be useful to divide parliamentary budget work into framework and estimates stages
• Parliamentary focus on performance may spur the government to pay more attention to results

IFI
• Some IFIs engage only in fiscal issues, others also examine program policies
• Staffing of IFIs and relationship to government influences their attention to program issues
Principle 5. Budget documents and data should be open, transparent and accessible

Principle 6. The budget process should be inclusive, participative and realistic

Practices

• Most governments routinely publish the budget and supporting material electronically
• Formal citizen participation is limited to a few issues, mostly in municipal governments

Effectiveness

• Citizens and groups now easily access information that was unavailable in the past
• The budget process itself is closed, though influential groups have privileged access to policymakers

Parliament

• Recent increases in parliamentary budget staffs and activities have given citizens additional means to monitor and (in some countries) to influence decisions
• Web-based communication has the potential to diminish parliament’s role as an intermediary between citizens and government

IFI

• Establishment of IFIs expands citizen capacity to assess government budget policies and to consider alternatives
**Principle 7.** Budgets should present a true, full and fair picture of public finances

**Principle 10.** The integrity and quality of budgetary information should be promoted through rigorous, independent quality assurance

**Practices**

- Governments generally consolidate all funds, including offbudget or extrabudgetary accounts
- Many governments identify contingent liabilities in the budget or supporting statements

**Effectiveness**

- New forms of financing, such as PPPs challenge the budget’s comprehensiveness
- Governments routinely publish audited financial statements, which may disclose items not included in their budgets

**Parliament**

- Contemporary parliaments emphasize ex ante review, in contrast to traditional focus in many countries on ex post review
- Enlarged staffs enable parliament to scrutinize budget plans and estimates and to offer alternatives

**IFI**

- Assuring the integrity of fiscal projections and budget policies is the primary objective of the IFIs
- To perform this role, IFI must gain credibility and the attention of media and policymakers
CLOSING THE GAP BETWEEN PRINCIPLES AND PRACTICES

- OECD countries have adopted many of the practices implied by the principles
- But our analysis suggests that they have not always achieved the intended results
- Budgeting has been reformed, but budget outcomes have not
- Major advances have been made in lengthening the budget’s time horizon, injecting performance information more accessible to citizens, and sensitizing governments to fiscal risks and contingent liabilities
- Parliaments are more amply staffed than before, and many have become more active in reviewing and amending the budget
The desirability of independent fiscal analysis has fueled the spread of IFIs and given them a prominent role in budgetary governance.

The burgeoning quantity and quality of budgetary information is not enough. Information has to be used, it has to influence budget work whether the information is about the long-term or about the cost-effectiveness of current programs.

Transforming information into budgets is the work of political leaders in both the executive and legislature. Political will is the alchemy that closes the gap between principles and practices: There is no substitute.