

OECD Spending Better Framework

Jón R. Blöndal

Annual Meeting
Bucharest, 27 October 2022



OECD Spending Better Framework

- *How* government's budget - the **quality of their budget institutions** – plays a pivotal role in maintaining sustainable public finances.
- The *OECD Spending Better Framework*:
 - Presents the key elements of successful budget institutions in a comprehensive and integrated manner.
 - Defines the key entities, functions, processes and procedures that together constitute quality budget institutions.
- Endorsed by the Committee of Senior Budget Officials
 - Final comments being integrated

Spending Better – The 10 Principles



1. High-level political commitment and clear objectives

Core to achieving fiscal goals

Fiscal objectives should be explicitly disclosed

Provide a benchmark to hold government accountable

Acts as an anchor for subsequent principles



TE TAI ŌHANGA
THE TREASURY

New Zealand's Fiscal Strategy Report

- Published alongside each budget.
- Obligation to publish set out in the Public Finance Act 1989.
- Sets out the government's short-term fiscal intentions and long-term fiscal objectives for fiscal policy shown against key variables.
- The government is also responsible for demonstrating how its fiscal strategy is responsible.

2. Unbiased Economic assumptions

Crucial for avoiding revenue shortfalls and unplanned spending pressures

Assumptions should be disclosed, including adjustments for risk

Sensitivity analysis should be provided

IFIs are an important partner to ensure objectivity

United Kingdom's Office for Budget Responsibility

Created in 2010 to provide independent and authoritative analysis of the UK's public finances. Its key responsibilities include:

- Producing the official economic and fiscal forecasts for the Budget and Spring Statements.
- Assessing the extent to which the government's fiscal targets have been, or are likely to be, achieved alongside each forecast.
- Assessing the accuracy of its previous fiscal and economic forecasts at least once a year.

"It is the duty of the Office to examine and report on the sustainability of the public finances"

3. Multi-year expenditure baselines

Baselines illuminate consequences of spending decisions over 3-5 years

Should be regularly updated and published, reconciled with actual spending and include all expenditures

Should be the responsibility of the entity preparing the budget

Australia's forward estimates



- Include a baseline projection for all expenditures for three years beyond the next (upcoming) budget.
- Updated throughout the year, to ensure they reflect all available information on the evolution of parameters and policy decisions at any given time.
- Prepared at the same level of detail as the budget, thereby allowing each year's budget to contain a reconciliation between its own figures and the first outer year in the previous year's forward estimates.
- Published with the budget, and updated and published mid-year as well.

4. Top-down expenditure ceilings

Bedrock of the budget process and operationalise high-level fiscal objectives

Set at the start of the annual budget preparation process, before receiving spending requests from line ministries

Only flexible for limited areas of spending, but reallocation permitted within the ceilings with permission from MoF

Robust enforcement and monitoring needed

Expenditure ceilings in Finland

- For a four year period covering 80% of central government expenditure (variable spending such as unemployment security and housing allowance are excluded).
- Line ministries are expected to reallocate spending to finance new policy priorities.
- If ceilings are breached, the Ministry of Finance has the authority to reduce appropriations accordingly.
- Only essential price and cost level adjustments and required structural corrections are made to the ceilings annually.

5. Spending reviews

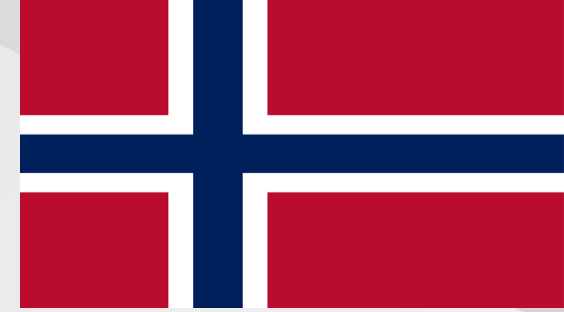
Need clear scope, objectives, and political commitment

All expenditure included, not just new spending, highlighting opportunities for reallocation

Should have an explicit link to the budget process

Performance, results and evaluation information are key inputs

Spending reviews in Norway



- Spending reviews are closely aligned with the budget process in Norway and form a routine part of budget planning.
- Mandates for spending reviews are discussed at a budget strategy conference every year, where the results of previous spending reviews are also considered.
- The recommendations from spending reviews have a direct effect on spending and are integrated into the budget process.

6. Informed spending decisions

Performance and results information, budget impact analysis and evaluation are key

Performance indicators should be in the budget and monitored regularly

Gender and green budgeting are powerful for affecting change

Allows for evidence-based assessments of efficiency, effectiveness and results of programmes

Green budgeting in France



- France published its first Green Budget as an annex to the 2021 Finance Bill. The budget provides an assessment of the green impact of all state budget expenditure and tax measures, including both positive and negative impacts on the environment.
- France has worked on a comprehensive classifications system for environmentally friendly, neutral and potentially harmful budget measures.
- Their approach looks at six different environmental aspects: climate change adaptation, mitigation, biodiversity, the circular economy, water and air quality.

7. Integrate loans and guarantees

Governments carry out significant activity through loans, guarantees and other contingent liabilities that will – or may – have future budgetary implications

Such loans and guarantees often contain a carry a low rate of interest and/or default risk, which should be made explicit

These subsidies should be estimated upfront at the time of granting the loan and guarantees, and fully funded when granted within established expenditure ceilings

Governments should monitor and manage their portfolio of loans and guarantees, as well as relevant fiscal risks that do not meet the recognition criteria of a contingent liability, with a view to the long-term sustainability of public finances

The United States Federal Credit Reform Act

- Enacted to better measure the cost of credit programmes by assessing the upfront cost of the liability created through the extension of credit, taking into account the risk of default.
- The Act mandates that the President's budget should show the "costs" – the "estimated long-term cost to the government" of direct loan and loan guarantee programmes as well as the planned level of new loan obligations or guarantee commitments.

TITLE V--CREDIT REFORM

SEC. 500. SHORT TITLE.

This title may be cited as the "Federal Credit Reform Act of 1990";.

SEC. 501. PURPOSES.

The purposes of this title are to--

- (1) measure more accurately the costs of Federal credit programs;
- (2) place the cost of credit programs on a budgetary basis equivalent to other Federal spending;
- (3) encourage the delivery of benefits in the form most appropriate to the needs of beneficiaries; and
- (4) improve the allocation of resources among credit programs and between credit and other spending programs.

8. Line ministries as partners

Relationship between the Ministry of Finance (MoF) and the finance function of line ministries is crucial

Budget reforms, for example top-down expenditure ceilings, shift the dynamic between the MoF and line ministries

Finance function responsible for living within expenditure ceilings, reallocating resources as necessary

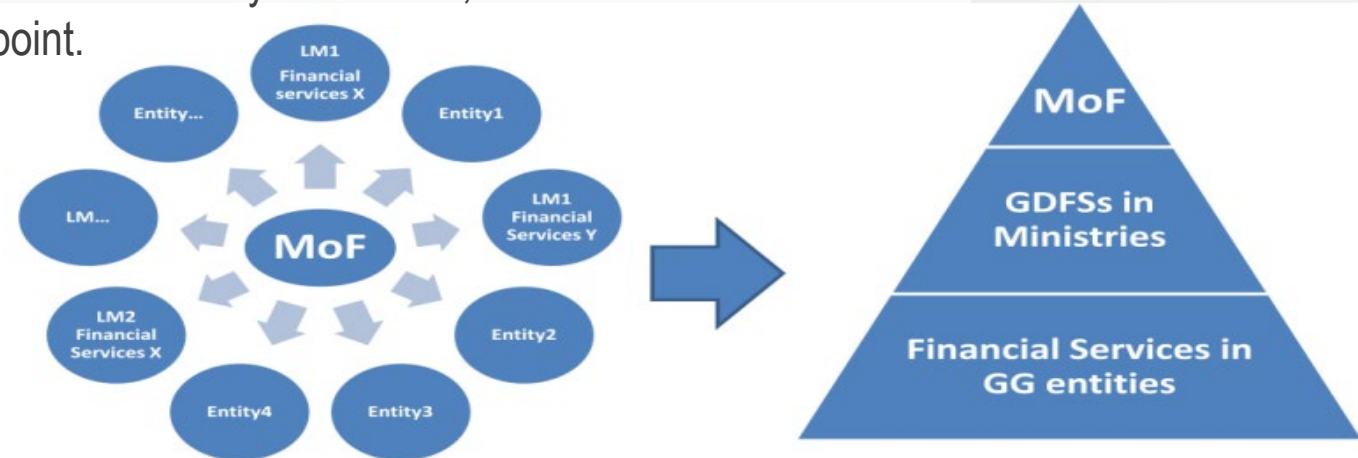
Unanticipated policy developments with spending implications should be promptly communicated

Finance Directorates in Line Ministries in Greece

As part of Greece's budget reforms, a new General Directorate of Financial Services (GDFS) was created in all line ministries. Each GDFS comprises of at least four units:

- A budget unit in charge of budget preparation, appropriation monitoring and management, cash forecasts and fiscal reporting.
- An accounting unit in charge of processing payments after all necessary controls.
- An oversight unit supervising legal entities operating under the ministry's umbrella.
- A procurement unit in charge of purchase and procurement.

GDFSs have created a clearer flow of information between line ministries and the Ministry of Finance, where the GDFSs serve as the central contact point.



Note: GG - General Government, LM - Line Ministry

9. Budget transparency

Revenues, expenditures, assets and liabilities should be routinely and reliability reported

Should present accessible and digestible information. Users can create their own reports and infographics

The MoF should promote understanding of the budget amongst public and key stakeholders



Government
of Canada

Gouvernement
du Canada

Access to open budget data in Canada

- The Federal Government of Canada has made government financial data accessible to the public through its Open Data Portal.
- The data underlying budget reports and financial documents is available, as well as information on when the data was released and updated.
- Data from the Survey of Private Sector Economic Forecasters is also available to compare how forecasts have changed over time.

Open Data

Search open data that is relevant to Canadians, learn how to work with datasets, and see what people have done with open data across the country.

Search through our Open data portal.

10. Ensure effective oversight



REPUBLIC OF AUSTRIA
Parliament

Oversight needed by parliament and the public

Parliament provides debate on budgetary choices, at all stages of the budget cycle and should have access to all the budget information it needs

Citizens should be actively engaged in budgetary decision processes

IFIs have a unique role in enhancing parliamentary oversight and enriching debate

Austrian Parliamentary Budget Office

Established in 2012 to provide Parliament, in particular the Budget Committee, with immediate and independent budgetary expertise and to strengthen its position in relation to the government.

Its objective analysis and reports are available to the public.

Its key tasks are to:

- Support the Budget Committee in the form of written expertise, analysis and short studies on budgetary matters presented by the government according to budget law.
- Support other parliamentary committees regarding impact assessment of new legislation.
- Prepare brief information pieces and short studies upon request of Members of the Budget Committee.

When completing these tasks, all aspects of performance and gender budgeting are taken into account.

OECD Spending Better Framework

Jón R. Blöndal

Annual Meeting
Bucharest, 27 October 2022

