STATEMENT BY THE CHAIRMAN

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1. The combination of strong economic growth and tighter fiscal discipline has enabled a number of Member countries to move from a situation of suffering budget deficits to one of enjoying surpluses, or near surpluses.

2. The Senior Budget Officials concluded that it was opportune for OECD Members to be more ambitious for their budget processes. Budgets should take more account of the future, not just in terms of recognising liabilities, but also by recognising major and inevitable consequences of current patterns of behaviour, especially in respect of an ageing population and environmental degradation. It was time too that budget institutions become better at reallocating resources when national priorities change, without the stimulus of a crisis.

**Greater independence for fiscal institutions**

3. The case for independent central banks is now firmly established and the concomitant positive impacts on monetary policy generally recognised. Delegates noted with interest a report on whether similar institutional arrangements could apply for the conduct of fiscal policy, or for certain aspects of fiscal policy.

4. Delegates concluded that such institutional independence was unrealistic for the conduct of fiscal policy in a general manner, given the inherent political nature of budgeting.

5. Delegates did, however, note that greater independence has been introduced for certain aspects of fiscal policy in Member countries, most notably in the field of the economic assumptions applied in the budget.

6. The use of inaccurate economic assumptions is a risk facing Member countries. As the result of past experiences with “optimistic” economic assumptions, a number of Member countries have reformed the manner in which they formulate their economic assumptions. This can take the form of (a) an institution independent of the budget office being made responsible for formulating them, or for verifying them; (b) governments can rely on private sector economic forecasts as the basis for the economic assumptions, or (c) the legislature can take a more active role in critically reviewing the economic assumptions.
**Reallocation – Aligning political priorities and budgetary funding**

7. The Meeting noted the conclusions of an Expert Meeting held on reallocation – aligning political priorities and budgetary funding. Reallocation is at the heart of budgeting, ensuring that resources flow to where they are valued most and away from areas where they are less valued. This is, however, an inherently difficult area as resistance to reallocation is great from those who would be adversely affected by it.

8. The experience of Delegates in earlier years indicated that an external “shock,” or crisis, was in fact required in order to trigger large scale reallocation exercises. A surplus environment creates new challenges for achieving reallocation.

9. The use of across-the-board cuts is applied widely in Member countries as part of reallocation programmes, especially for reducing the operating (current) expenditures of government. This serves to reduce deficits, or to create a pool in order to fund new initiatives. This is justified in terms of capturing productivity gains in the public sector. Experience has also shown that this is the most politically acceptable manner of reducing expenditures.

10. In terms of across-the-board cuts, it was, however, noted that they were in general applied at the level of aggregate expenditures for each ministry, and that line ministries were generally granted great flexibility in how they achieve the cuts within their aggregate ceiling. As a result, there can be great reallocation between programmes within a ministry. Line ministries are in the best position to identify savings within their respective ministries and have greater ownership of the reallocation exercise.

11. As opposed to reallocation within ministries, Delegates noted that it was difficult to achieve reallocation between ministries. This remains the greatest challenge for reallocation efforts.

**Fiscal Transparency**

12. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Transparency – openness about policy intentions, formulation and implementation -- is a key element of good governance. OECD Member countries are at the forefront of fiscal transparency practices.

13. Delegates discussed various aspects of the draft OECD Best Practices for Fiscal Transparency which draw together examples highlighting best practices in this area based on Member countries’ experiences.

14. Delegates consider the document as an important reference in order for Member and non-Member countries to improve their fiscal transparency practices. Delegates emphasised, however, that this should not be interpreted as a legal code.

15. A working group was formed in order to finalise the document for general release, including how it can best complement the International Monetary Fund’s Code on Fiscal Transparency.
16. Fiscal transparency is a dynamic area. The OECD Best Practices need to be updated in future years in order to take account of new innovations being made in this area.

**Accrual Accounting and Budgeting**

17. A significant number of Member countries have been adopting accrual-based accounting and budgeting practices to one degree or another. This move has taken very different forms in Member countries. Some have moved their entire budgeting and accounting framework to accruals; others have introduced accruals for financial reporting only; some have introduced elements of accruals into an otherwise cash-based system.

18. Fiscal target setting in an accrual environment is a new challenge for an increasing number of Member countries who have adopted accrual budgeting, or are in the process of doing so.

19. Delegates welcomed the efforts of the Public Sector Committee of the International Federation of Accountants to harmonise public sector accounting standards. It is important to apply uniform standards for budgeting and financial reporting, and Delegates welcomed the opportunity to work closely with PSC-IFAC towards achieving that goal.

**Results-Oriented Budgeting**

20. A major theme of budgeting reforms in Member countries in recent years has been the shift in focus to results and managerial flexibility, and away from detailed inputs and centralized management controls. Specifying and measuring results in the public sector continues to be a challenge.

21. Delegates welcomed the OECD Outputs Manual which is intended to provide guidance on the introduction of results-oriented budgeting by highlighting best practices in this area. Delegates emphasized the importance of outcomes as well in a results-oriented environment.

**Future Programme**

22. Delegates endorsed PUMA’s new Mandate with its emphasis on matters important to governance. Delegates supported the proposal to examine the governance of semi-autonomous agencies and encouraged the Secretariat to pay more attention measuring and benchmarking government performance, including its impact on intended outcomes.

Paris, 30 May 2000