PUBLIC MANAGEMENT SERVICE
PUBLIC MANAGEMENT COMMITTEE

MAIN ISSUES

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For further information, please contact Alex MATHESON or Jon BLONDAL
alex.matheson@oecd.org - Tel. +33-1 45 24 90 85; Fax +33-1 45 24 17 06
jon.blondal@oecd.org - Tel. +33-1 45 24 76 59; Fax +33-1 45 24 17 06
MAIN ISSUES

1. This paper summarises the contents of each of the substantive papers which have been prepared for the meeting:
   - Budgeting for the Future?
   - Budgeting in the Netherlands
   - Role of Parliament in the Budget Process
   - Outcome-Focused Budgeting

2. The results of the OECD Survey of Budgeting Developments are contained in a separate document which will be distributed at the meeting. Additional information on gender budgeting will be provided at the meeting as well.

3. This paper also contains a discussion of the Secretariat’s future programme work on budgeting. In order to increase responsiveness, a separate document is being circulated in order for Member countries to indicate the areas of work that is of high, medium or low priority for their national administrations, as well as to propose new areas of work not listed in this document. Member countries are also invited to indicate whether they would consider making contributions (financial or in kind) to any of the activities.
BUDGETING FOR THE FUTURE
Does Budgeting Have a Future?

Aggregate discipline

4. Have the fiscal targets and related innovations disciplined public finance, or are they the latest in a long list of budget reforms that have made little difference? The OECD has addressed this question by comparing spending as a proportion of GDP in countries that were members of the Organisation before the first SBO convened in 1980. The study shows marked deceleration in spending growth and more modest fiscal imbalances than in previous periods. But the rise in public spending has not been reversed; virtually every country reports that such spending is now a higher share of GDP than was the case one or two decades ago. The era of big increases is over, but government budgeting still is incremental, building the next budget on the results of the last one. As a consequence, government spending accounts for a higher proportion of GDP than when SBO was established. To meet targets, governments have trimmed some entitlement programs at the edges and have made deep cuts in subsidies to enterprises. Most have trimmed operating costs by imposing across-the-board cuts or by seeking to boost efficiency. They also have made greater use of fees and other charges to finance particular programs. From the vantage point of voter-pleasing politicians, many of the cutbacks have entailed difficult choices, but their chore may have been eased somewhat by the new rules and procedures discussed in this section. Yet a fair assessment of two decades of tinkering with the machinery of budgeting is that the process is not all that different than it was before SBO, and that the underlying pressures and imbalances of public finance have not been eliminated.

5. There is a strong probability that public spending will continue to rise as a percentage of GDP in developed countries as their populations age. The pace of increase will depend principally on the cost of social insurance and related programs, as well as on overall economic trends. Will the rate of increase be similar to that experienced during the pre-SBO decades, or will it resemble the smaller rise of the 1980-2000 period? Of course, even a modest increase would be atop spending which already exceeds 50 percent of GDP in many European countries. This means that if OECD countries do about as well in the next two decades as they did in the previous two, they will be doing worse. Moreover, the risk that they will do much worse is far greater than the probability that they might do a little better.

6. My sense, however, is that we are in for another long spell of muddling through of chronic fiscal pressure that, like chronic back pain, gets attention but not so much as to compel a marked change in life style. In muddling through, governments will struggle to constrain the fiscal aggregates within some acceptable, though expanding, envelope. Their task will be facilitated by changes in both the information content and procedures of budgeting, some of which are described in the paragraphs that follow. But even with rule changes that arm guardians of the public purse with new authority, fiscal discipline will be a difficult political and economic chore. Politicians will have their fingerprints on the controls, and they will garner blame for matters over which they have little genuine control.

7. We started this section by considering how future governments might bolster fiscal discipline; we end it with a proposal that concedes the lack of government discipline and looks for relief outside the political process. Governments of the future may be compelled to account to outside authorities, to maintain their budgets in a form dictated by others, to have their budgets audited as to content and process, and to have authority over key aspects of budget policy transferred to others.
8. In a globalized future, national governments may have bigger budgets but less effective influence over them. If they budget in a fiscally disciplined manner, it may be because they have been weakened, not because they have been empowered. To the extent their budgets impose external costs on other countries or on the international community, they may be required to submit their policies to external review. Even the biggest countries may be compelled to formulate budget policy in open economies, in which events outside their borders impinge on their fiscal capacity. National governments will be increasingly sandwiched between meta-national and sub-national governments, in which fiscal decentralization coexists with fiscal internationalism. Pulled in opposite directions, their budgets may be beholden to decisions taken by others.

9. This conclusion is highly speculative, for it would mark a retreat from an age in which legal sovereignty and political power were concentrated in the nation-state. This form of governance may prove to be more durable and adaptive than the bad case scenario in the previous paragraph indicates. It may be that the determination to maintain fiscal discipline will impel countries to re-centralise control of public money, or that international authorities limit their role to specifying accounting rules and aggregate policy, but do not play a role in substantive policy. Another possibility is that in the globalised future, national governments will become the functional equivalent of contemporary sub-national governments, articulating local interests and demanding a share of international budgets for their own use. With so many plausible scenarios, the only thing that is certain is that the fiscal future will different from today’s fiscal arrangements.

Allocative Efficiency

10. As with the fiscal aggregates, SBO marked a change in budgeting as a distributive process. One of the early SBO’s considered a paper by D. Tarschys on budgeting as a decremental process; other meetings focused on cutback budgeting. The change in orientation has been due to the reorientation of budgeting from a process which annually allocates increments to favored programs to one which has little margin (and sometimes none) for spending initiatives. This change in fortune has been due to the built-in claims of entitlements and other mandatory expenditure, the less robust economic growth of the past two decades, and efforts to strengthen fiscal discipline. The last of these is especially important because the more successful a government is in constraining the totals, the greater the risk it runs that old priorities will be frozen into the budget and new priorities will be frozen out.

11. When incremental resources are available, budgeting is a distributive process in which government responds to fresh demands by allocating additional resources to them. Incremental budgeting has been lauded by some observers on the ground that it stabilizes the process and reduces conflict, and has been criticized by others on the argument that it biases spending upward and rewards inefficiency. These arguments aside, there is little doubt that in the pre-SBO period, incrementalism was the norm. However, incrementalism requires increments, additional resources that can be spent on some purposes without taking money away from other purposes. In the two decades since SBO, budget increments often have fallen short of the expected growth in expenditure. To make matters more difficult for governments, they can no longer tax their way out of budget problems.

12. As a consequence, budgeting has been molded into a somewhat re-distributive process, in which funds are recycled from old programs to new ones. The word "somewhat" reflects the reality that redistribution fuels conflict, and budgeting is a process that must dampen conflict. Redistribution is not wholesale change; it is tinkering here and there to free up money for current needs. Redistribution is always difficult, but it has been made more so by the heightened activism of interest groups on the periphery of government lobbying to protect their budget stakes. As budgets have gotten tighter, groups have become more assertive, and many now have informal roles in budgeting.
13. Despite the attention paid it, redistribution is a side show in budgeting; the main event still is distributing money, usually on an incremental basis to powerful claimants. Notwithstanding the bleak scenarios which show budgets and demographics on a collision course early in the 21st century, budgeting will continue as a process for distributing spending increases to agencies, households, and other beneficiaries of the government’s largess. On the basis of political trends, one can expect budgeting to become more open and sensitive to demands by claimants mobilised to protect or enlarge their shares. Voters, interest groups, NGO’s, and others will become more assertive and the budget will become more transparent about who is benefiting and who is losing from the government’s financial decisions. Thus, even as budgeting becomes more technocratic, it will be more politicised. The upshot will be more conflict in budgeting as rival interests vie for advantage. Yet because of the compelling need to resolve each year’s budget, new methods will be devised to regulate friction over resource allocations.

14. Since its inception, budgeting has been depicted as a process for allocating funds among alternative uses. Many of the decisions have pertained to the allocation of incremental resources, but the increments normally have been of sufficient consequence to invest budgeting with political and financial importance. Budget decisions have mattered because they have determined how these resources were spent.

15. Over time, however, the decisional capacity of budgeting has been chipped away by statutory requirements, international treaties and obligations, changing fiscal relations between the central government and sub-national governments, the shift in fiscal risk from enterprises and households to governments, and the demands of interest groups. The cumulative effect of these developments has been to transform much of budgeting into a means of accounting for past decisions. The scenario drawn in this section indicates that even a greater portion of expenditures will be budgeted in this manner in the future. As unsettling as this conclusion may be, it may be an appropriate condition for mature democracies whose voters want neither big expansion nor big retrenchment of government, and where the most important issues have been settled (at least for the time being) by decades of policy adjustment and program accretion. In these countries, most voters are clustered near the center, and the political parties fight loudly but over small matters. Democratic stability is no minor accomplishment, and it is due in part to the dulling of political conflict by budgetary stasis.

16. The loss of budgetary flexibility was a recurring concern of the early SBOs and has appeared on the agenda in various forms over the past two decades. Entitlements are a growing part of national budgets, and they are here to stay. The damage they do to the budget is compensated by the security they bring to households. Anyone who bemoans the spread of the entitlement state must marvel at the economic well being it has brought to its citizens. The two developments are inter-linked, making the budget the dependent variable in the political relationship between citizens and state. But what is new and somewhat alarming, if the future envisioned here is credible, is the rigidification of heretofore discretionary expenditures. The big allocative questions still in the hands of national governments -- how much to spend on services -- will be decided by norms and formulas in future budgets. The last preserve of budgeting is threatened by the same logic that has made entitlements so popular and pervasive. Ensure interests and classes their share in the budget by making allocation a matter of legal right rather than of discretion. Give cities and communities their shares, the old and the young, the schools and the health clinics. Budgetary choice may be weakened, but all for the good of society.

17. Perhaps this scenario will turn out to be another false alarm and budgeting will persist as a robust allocative process. But if normative budgeting materializes, it will be necessary to stop thinking of it as an allocative process and to recognize that it has metamorphosed into something that appears to be the same, but is not.
Operational Efficiency

18. Fiscal discipline and financial allocation are principal concerns during preparation of the budget. The third objective of budgeting -- promoting efficiency in the provision of public services -- focuses largely on implementation of the budget. While the first two objectives get most of the attention in big bang reforms, operational matters consume most of the work time of budget staff. The flow of communications during budget execution and the sheer number of actions that are reported and controlled dwarf other work demands of budgeting.

19. Despite its sometimes lowly status, operational budgeting is important because it affects the cost and quality of services, the volume of government expenditure, the size of the civil service, and relations between citizens and government. Citizens know their government through the services they receive from it.

20. In view of the clashing position on public versus market provision of services, it is difficult to envision how government operations may be carried out in the future. But on the assumption that efforts to privatize or contract out basic services will continue to be resisted, and that market penetration will be marginal, this section considers a number of innovations that may extend the boundaries of managerialism and bolster market-type arrangements within government. In other words, government will continue to budget for and provide services, but will do so in ways that heighten sensitivity to the cost and quality of services.

21. Allocating resources on the basis of services to be provided is an old, appealing, and elementary idea that has made surprisingly little headway. Many governments include performance information in their budgets, but doing so does not mean that they systematically make spending decisions on this basis. The concept of performance-budgeting intended here is one in which each increment in expenditure is expressly linked with an increment in output or performance. Implementing this concept requires that government have reliable data on the unit cost of services and that bids for resources be structured in a manner that facilitates the marginal analysis of costs and outputs. Few governments currently have this capability, though many compile performance information.

22. Nevertheless, performance budgeting is an idea whose time will come. Progress in measuring and costing outputs and demands for both efficiency and quality in the provision of services will impel governments to allocate on this basis. Of course, once budgets explicitly link increments in resources and services, it will be a simple task to outsource government work and to exchange resources and output on a commercial basis through market mechanisms. Thus, performance budgeting which seeks to implant managerialism in government, has the potential to uproot it.

23. Once a government has the cost and output data needed to formulate a performance budget, it may take bolder steps to improve public management by budgeting on the basis of price rather than cost. A price-based budget is one in which government authorizes expenditure in terms of the amount agreed to be paid rather than on the basis of the cost of producing the services.

24. Except in areas where output is contracted out, governments do not presently have the know how to budget on the basis of price. Governments lack cost accounting systems to measure what particular services should cost, nor are most of their basic services subject to competitive tenders. Yet, significant progress has been made in reparating price from cost. When government allocates a running cost budget to an agency without tallying up the cost of inputs, it moves in the direction of the price basis. Similarly, when it cash limits this budget or subtracts an efficiency dividend from the amount provided, government weakens the link between price and cost. Price based budgeting will be a difficult feat, but it is feasible.
25. Performance and price-based budgeting are associated with another practical innovation -- a shift from fixed budgets in which total spending does not depend on the amount produced to variable budgets in which the amount paid by government is determined by the volume and quality of output. As alien as it may seem to government budgeters, variable budgeting is standard business practice. Although some portions of their budgets may be fixed, firms allocate production costs on the basis of the volume produced, and many tie expenditures on research and developments or other variables. Governments do not, however, because they regard appropriations as fixed limits on the amounts that may be spent. In effect, government buys all the output of its spending agencies at a fixed price; it does not spend more or less if the amount produced deviates from the budgeted level.

26. In the future, government performance will be a right of citizens. In the same way, that citizens are entitled to health care or income support, they will be entitled to performing schools, on-time transport, courteous civil servants, prompt handling of applications, and other public services. When this occurs, performance will have been transformed from a means of measuring and assessing services into assurance that services will be provided as set forth in the budget.

27. Under the best of circumstances, not all agencies will provide citizens with the services to which they are entitled. Shortfalls in performance may be due to improper management of agency finances, lack of skills needed to carry out assigned responsibilities, an uncaring attitude, or citizens who are indifferent to the quality of services or do not know how to obtain improvement. In these circumstances, the most appropriate remedy may be to place operations in the custody of a receiver who is authorized to replace staff, manage the budget, and take other actions needed to raise performance to acceptable levels. An alternative would be to give citizens the option of obtaining services from other providers, but this may be of little value for citizens trapped in poor communities.

28. The future shape of government operations is highly uncertain, more so than forth two other budgetary functions discussed in this paper. With equal plausibility one can envision government yielding to markets or governments digging in and protecting their traditional ways. The probability is that governments will move in different directions, with some making broad use of contracts and others relying on rules and controls. Almost all will pursue improved performance, but they will take different paths.

29. Doing nothing will not be an option, however, because citizen expectations will continue to rise. Governments will be confronted with a choice: improve performance, spend more on operations, or degrade services. Most will opt for performance, but they will succeed only if they are willing to dismantle many of the control and compliance systems which shape the structure of government and the provision of services.

Conclusions

30. The following paragraphs sum up major developments underway in budgeting's fiscal, allocative, and operational roles. The list is not complete, but it nevertheless adds up to a strong case that budgeting will be displaced from its favored position.

- **Sandwiched Budgeting.** National budgets will be influenced by international rules and requirements which prescribe how they manage their finances and what they spend money on, as well as by local or regional governments which will have claim to much of the nation's tax revenue.

- **Normative Budgeting.** An increasing portion of national budgets will be allocated by fixed norms, which will govern transfers to households, grants to sub-national governments, and program allocations.
Exogenous Budgeting. Revenues and expenditures will be increasingly dependent on outside influences -- economic and social conditions, capital flows, exchange rates, the age and income structure of the population, medical technology, child-rearing practices, and service levels. Changes in these factors will compel automatic adjustments in national budgets.

Government as Financier. The national government’s main budget responsibility will be to levy taxes that finance spending by others -- international organizations, households, and sub-national governments. The services it directly provides will account for a declining share of the budget. The separation of taxing and spending authority will generate both political and budgetary stress.

Balkanized Government. National governments will be fractured into numerous independent agencies, each with its own budget and each empowered to operate and manage its resources as it deems fit. Ministries or departments will still be responsible for developing policies and coordinating programs, but they will have weak leverage vis-a-vis the independent agencies.

Higher Expectation, Less Trust. Budgets will be made in a political environment in which citizens demand much more from government but have low confidence that will perform well. High expectations will pressure government to spend more and improve services, low trust will make it difficult for government to extract more revenue from its citizens.

Budgeting has a future, but what it will be determined by what government becomes. Budgets and governments are inter-twined together; it is not possible to envision robust budgeting unless government is strong and capacitated and it is not possible to have strong government if its budget lacks the capacity to regulate public finance. The key question therefore is how government will evolve in the decade ahead. Answer that question and the question in the title of this paper also will be answered.

BUDGETING IN THE NETHERLANDS

32. The budget formulation process in the Netherlands operates in two very distinct phases. The first phase occurs when a new government takes power and it establishes its overall budgetary policy for its term of office. This is done in explicit terms, rather than being a general statement of intent. The second phase then occurs annually, as the Government’s overall budgetary policy is translated into operational terms for all of the government’s various activities.

33. Budget deficits increased dramatically in the early 1980s. In 1983, the government embarked on a new course with the aim of major reductions in the budget deficit. Initially, this policy was successful in bringing down the deficit: it fell from more than 8.9 per cent of GDP in 1983 to 5.7 per cent in 1986. In the period 1986-90, however, at a time when the cyclical economic situation improved considerably, budget over-runs and additional expenditure were easily financed by cyclically high tax revenue without violating the actual deficit targets. As a result, the positive change in the cyclical component of the budget balance was, for a large part, offset by a negative change in the structural component. In the subsequent downturn, the opposite happened. The high structural deficit limited the scope for allowing the automatic stabilizers to work and required the Government to take discretionary measures to respect the actual targets. From 1989-1994, budget projections were overtaken four times by downward revisions in economic activity, forcing the Government to introduce fiscal packages, additional to the initial budget. In terms of budget savings measures, these additional packages were of greater importance than the original budget.

34. This system of “continuous budgeting” had its costs. From a political point of view, previous multi-party agreements on budget policy had to be frequently re-opened, which created a fragile
environment for governing. From a budget management point of view, the system became very tumultuous with major decisions made on an *ad hoc* basis and at the last possible minute. As a result, it was increasingly recognized that the framework for budgeting had to be reformed.

35. In 1993, the Minister of Finance appointed a *Study Group on the Budget Margin* to recommend a new budget formulation system. The Study Group was composed almost exclusively of senior government officials from the key ministries within the field of economic policy. Based on the recommendations of the Study Group, fundamental changes were made to the budgeting process in the Netherlands. They impacted both phases of the budgeting process in the Netherlands, the first directly and the second indirectly.

36. No political party enjoys a majority in the Dutch parliament. As a result, it is necessary to form coalitions between two or more political parties in order to form a majority government. When a new government is created, it announces its major policy objectives in a document known as the *Coalition Agreement*. Budgetary policy is a key focus of the multi-party Coalition Agreements, with very explicit objectives agreed upon for the conduct of budgetary policy for its four-year term of office.

37. The framework for the budgetary policy aspects of the Coalition Agreements was fundamentally altered following the recommendations of the Study Group. The major conclusion of the Study Group was that the Government needed a more solid budget policy anchor. In practical terms, this meant that the focus should be on the level of expenditures, rather than the level of the deficit. They should also be based on cautious economic assumptions. This created more stability as extra revenue would not automatically translate into extra expenditures and the cautious economic assumptions would reduce the inherent risks. The following box summarises the key elements of the Study Group’s recommendations:

**Key Elements of the Coalition Agreements on Budget Policy**

- Valid for the government’s entire term of office – four years;
- Fixed maximum caps for expenditures in each sector;
- The maximums caps are established in real terms;
- Transfers are permitted between different sectors;
- Maximums are based on cautious economic assumptions;
- “Firewalls” exist between revenues and expenditures; and
- Explicit rules apply for dealing with windfalls and shortfalls.

38. For historical reasons, the Dutch budget is divided into three separate sectors. These are (i.) the “core” budget sector, (ii.) the health care sector, and (iii.) the social security and labour market sector. The separation of the latter two sectors from the “core” budget sector is in part due to the fact that they have their own dedicated financing sources. The latter two sectors are each the responsibility of a single minister respectively. The “core” budget sector, however, is the responsibility of a number of ministers. Each minister is politically responsible for his own budget and presents it to parliament himself. All in all, 23 separate budget bills are presented to Parliament. Officials emphasised, however, that for budget formulation purposes, all of these are considered one and that their separation causes no problems. In the Coalition Agreements, separate caps on expenditures are established for each of the three sectors. The Coalition Agreements also incorporate the multi-year expenditure projections of each ministry as the basis for sub-caps for each minister within the “core” budget sector. As the Coalition Agreements encompass all the government’s major policy initiatives, this will mean more expenditure in certain areas, and less in
others. All of these are integrated into the multi-year estimates for the respective area and their respective caps.

39. The expenditure caps are established in real terms, and adjusted annually for inflation. This serves to preserve the key decisions made irrespective of price fluctuations. This is primarily to prevent the Coalition Agreements from having to be re-opened during the course of the government’s term of office, which previous experience has shown to create a fragile environment for governing.

40. Transfers are permitted between the sectors, and between sub-caps established within the ‘core’ budget sector. For example, the social security and labour market sector is currently in strong surplus due to a more favourable economic situation than assumed. This surplus is being used to finance additional expenditures in other sectors, principally the health care sector. Surpluses in one area can, however, only be used to fund existing policies that are experiencing higher costs than projected. The consent of the entire Cabinet is required to finance new proposals. This is often a gray area as the next section on the annual budget process discusses.

41. If a budget over-run occurs in any area, it is the primary responsibility of that respective minister to prevent or deal with it. This is in line with the principle that each minister is responsible for his own budget. In practice, this means that a minister will have to reduce another part of his budget in order to finance the over-run. In exceptional cases, the cabinet may decide that more than one ministry, or all ministries, should contribute to financing the overrun in one ministry. In essence, this is the equivalent of a transfer between spending caps as described above.

42. The expenditure caps are based on cautious economic assumptions for the economy. The Study Group viewed this as an “insurance policy” for shifting the focus from the deficit to expenditures, i.e. the risk of the budget out-turn being worse than expected is mitigated. Any “surprises” are likely to be positive. During the Coalition Agreement negotiations, the Central Planning Bureau (see Box 3) will present to the political parties two economic scenarios. The first one is what it considers to be the most likely level of economic growth for the new government’s term of office. The second one is what it considers to be a cautious level of economic growth that should be used for budget policy purposes. The political parties will then decide to use the cautious scenario. The differences between the two are shown in Chart 1. In political terms, the parties would rather be faced with “good surprises” during their term of office rather than with “bad surprises.” Also, the Netherlands has a previous history of relying on overly optimistic economic assumptions as the basis for budget policy.

43. It is important to reiterate that there are strong “fire-walls” between revenue and expenditures. This means that should the economy perform better than expected, this does not automatically lead to increased expenditures. There are specific rules in place for how to deal with such “windfalls” in the Coalition Agreement. If the budgetary situation is turning out to be more favourable than the government anticipated, i.e. higher economic growth, then the following applies. If the deficit is greater than 0.75 per cent of GDP, 75 per cent of windfall goes to reducing the deficit and 2 per cent on tax cuts. If the deficit is less than 0.75 per cent of GDP, then 50 per cent of windfall goes on reducing the deficit and 50 per cent on tax cuts. The Netherlands is currently enjoying a budget surplus, so the 50-50 split applies.
Central Planing Bureau

The Central Planning Bureau (CPB) plays a key role in the development of the budget policy contained in the Coalition Agreements. The CPB is a very unique institution. It is a government institution but is completely independent; it commands the trust of all political parties and the public at large.

Prior to elections, the CPB will issue its economic forecast for the coming four years. All political parties use the CPB economic assumptions as the basis for their policy platforms. The larger political parties submit their policy platforms to the CPB ahead of elections for costing and to assess their economic impact. These policy platforms are generally very detailed. Although there is no legal obligation for political parties to do so, it is part of the Dutch political culture. In fact, the analysis by the CPB has often clarified the political platforms of political parties as the CPB has pointed out inconsistencies or errors in the proposed programs.

As the CPB economic forecasts are taken as a “given” and the fact that the CPB has already costed and assessed the economic impact of the policy platforms of different political parties, the Coalition Agreement negotiations go much smoother than would otherwise be the case. When new policies, or policy compromises, are being negotiated, the CPB will assess their impacts as well.

44. Although this new framework for the Coalition Agreements only dates to 1994, it appears to have become a very entrenched part of the budget formulation process in the Netherlands. There is no serious questioning of the new framework per se, only how it is applied. This is especially the case for the rules for how any windfalls are used, i.e. paying down debt, lowering taxes, or increasing expenditure as some are now advocating. The specific rules for how the windfalls are dealt with are more recent (1999) and are not as entrenched or as tested.

45. As can be seen above, the key features of the Government’s budget policy are set at the time it takes office. This relieves a lot of stress from the annual budget process. As one official remarked: “The key role of the Minister of Finance and the Ministry of Finance each year is to ensure that the Coalition Agreement’s budget rules are adhered to.” This is especially important today with budget surpluses.

The Role of Parliament

46. There are no constitutional restrictions on the role of Parliament in the budget process in the Netherlands and a vote on the budget is not automatically considered a vote of confidence in the government. Parliament does in fact amend the government’s budget proposal each year, but these amendments are generally minor. This is primarily a function of the Coalition Agreements. As they are agreed by the political parties forming the government, they by definition establish the framework for Parliament’s deliberation of the budget and its room for maneuver in this area. The current political environment of strong majority government reinforces this as well.

47. It is useful to divide the parliamentary budget process into two stages. The first stage coincides with the opening of each session of Parliament and consists of general policy deliberation in plenary session. The second stage consists of specific deliberation of each ministry’s budget proposal. Much of this work takes place in committees before being brought to plenary session for final approval.

48. The introduction of the budget is the outstanding event in the annual parliamentary calendar and coincides with the opening of Parliament’s annual session. In accordance with provisions of the Constitution, this takes place on the third Tuesday of September each year and is known as Princes Day. The Queen formally opens Parliament in Joint Session in the morning with an address. The Queen’s
Speech is written by the Cabinet and highlights the government’s plans for the coming year. Immediately following the Queen’s speech, the Minister of Finance introduces the budget to the Lower House.

49. The budget is a term used broadly to encompass a budget memorandum and 23 separate budget bills introduced in Parliament. The Minister of Finance’s budget memorandum contains an overview of the budget and major policy initiatives. The memorandum is not enacted into law. The Minister of Finance then introduces 23 separate budgets to Parliament on behalf of the ministers responsible for each policy area. As noted in the previous chapter, the practice of having separate budgets is to reinforce the principle that each minister is personally responsible for his budget. This, however, does not diminish the role of the Minister of Finance in any way. He must consent to each budget; otherwise they cannot be introduced in Parliament. Each of these 23 separate budgets is individually enacted into law.

50. In the days after Prince’s Day, a General Policy Debate takes place on the basis of the Queen’s Speech and the government’s budget proposal. This is the most important “confrontation” between the Cabinet and Parliament. Practically all Members of Parliament and Cabinet ministers are present at this time. Normally, this debate on government policy takes two days.

51. Following this debate, Members of Parliament have two weeks to submit written questions to Ministers. The number of questions is very large, with 300-400 questions asked of each minister on average. This was even greater in the past with over 1,400 questions typically being asked of each minister. This is the primary opportunity for Members of Parliament to gain additional information on the government’s policy objectives. Most of the questions are technical in nature and relate directly to the budget. In fact, the questions are generally dealt with in the context of the committees of Parliament as they review each budget.

**Shadow Budgets**

Opposition political parties generally present their own Shadow Budget shortly after the government has presented its budget proposal. These are not comprehensive documents but rather highlight 10-20 specific measures that differ from the government. The Shadow Budgets are generally 3-4 pages in length.

What makes the Dutch Shadow Budgets quite unique, however, is that all the specific measures contained in each of them will have been fully costed and their impact assessed by the Central Planning Bureau prior to being made public. (See Box 3.) This highlights the culture of fiscal responsibility that has generally typified budget debate in the Netherlands. A political party that would not have the Central Planning Bureau review its proposals would not be deemed responsible.

It is an unwritten rule in the Netherlands that a political party would identify sources of financing for any new proposal, either by reducing another item in the budget or by identifying specific revenue sources for the new proposal. The fact that the Netherlands is now enjoying a budget surplus may, however, be straining this unwritten rule.

52. Two weeks following the General Policy Debate, a General Budget Policy Debate takes place. This is in effect a continuation of the General Policy Debate, although formally it is to look specifically at the financial aspects of policy. Again, all of the Cabinet would be present for this debate.

53. It must be emphasised that these general deliberations are not a comprehensive examination of the budget in any sense. They focus on several politically sensitive issues for the most part. There is simply not enough time for Members of Parliament to be acquainted with the budget at anything more than a superficial level in the weeks immediately following the introduction of the budget. It should be noted in
this context that there are no pre-budget reports, or pre-budget consultations in the Netherlands. The more comprehensive examination is reserved for the second stage of the parliamentary budget process.

54. No votes on the budget are taken at the end of these general deliberations. This is, however, the last opportunity for all practical purposes to reallocate funds between the 23 separate budget bills that were introduced, as the second stage of the parliamentary budget process focuses on each budget bill in isolation. There have been examples of Parliament voting on non-binding resolution at the end of the general deliberations, but this is exceptionally rare. In reality, reallocation between the separate budget bills simply does not occur.

55. As noted above, the more specific deliberations of each budget bill is reserved for the second stage of the parliamentary budget process. This stage starts with each budget being referred to a committee for scrutiny. It is quite noteworthy that there is no specific budget committee in the Dutch Parliament that has overall responsibility for scrutinising the budget in aggregate terms and allocations between different sectors. In practical terms, this means that the aggregate allocation to each sector is taken as a given.

56. Each sectoral committee will scrutinise the budgets under its mandate. For example, the Committee on Education would scrutinise the budget for the Ministry of Education. There are 14 sectoral committees in the Dutch Parliament, so most committees will receive one or two budget bills for scrutiny. Each committee consists of 25 members with an equal number of alternates. Each committee is assisted by one secretariat staff member, most often with a legal background.

57. The very disaggregated manner for discussing the individual budgets makes it very difficult to get an overview of the budget as a whole and to shift funds from one area to another. The discussion in plenary session at the time the budget is introduced are not effective for an in-depth analysis of the budget, especially allocations between the different budgets. The detailed deliberations on each budget in its respective sectoral committee would appear to be a very productive method of work. Consideration should, however, be given the establishment of a co-ordinating committee that would deal with the budget aggregates and the allocations between the different budgets. Such a system would imply additional resources being made available to Parliament for deliberating the budget.

Outcome Focused Budgeting

58. In May 1999, the Minister of Finance announced to Parliament that the government intended to introduce an outcome-focused budget system to replace the present input-based one. The first official outcome-based budget will be presented to Parliament in September 2001. In September 2000, the Minister of Finance further announced to Parliament that the government intended to introduce accruals as the accounting basis of budgeting to replace the present cash basis. The exact date for introducing the latter reform has not been finalised but the budget for 2006 is cited as the most likely deadline.

59. The impetus for these reforms would appear to be two-fold. First, strong political support. The Minister of Finance and the Prime Minister, who is himself a former Minister of Finance, are both strong proponents of these reforms. Parliament – especially the Committee on State Expenditure – has been also been a strong proponent of the reforms. Second, and the apparent reason for the strong political support, is that the present system of budgeting is viewed as providing insufficient information on the government’s activities and their true costs. The objective of the reforms is to make the budget more policy-oriented, recognising it as the government’s primary policy document. This means that a link between policy, performance and resources must be made. It is also important to note that corresponding changes will be made to the ex-post annual reports, where performance information will be audited on an ad hoc basis by the Netherlands Court of Audit.
ROLE OF PARLIAMENT IN THE BUDGET PROCESS
Can Legislatures Regain an Effective Voice in Budget Policy?

60. Two contemporary developments are buffeting legislative work on the budget. One is the drive to discipline public finance by constraining the fiscal aggregates; the other is the effort to enlarge the legislature’s role in revenue and spending policy. Whether these trends turn out to be complementary or contradictory will shape the budgetary role of national legislatures in the years ahead. One scenario is for the legislature to reinforce fiscal discipline by taking responsibility for the budget’s totals; another is for it to undermine discipline by bombarding the budget submitted by the government with legislative amendments that trim revenues or boost expenditures.

61. The early signs point to the former course, but the history of budgeting and some contemporary research assume the latter. In a number of countries, the national legislature now votes the budget totals, in addition to its traditional work on revenue and spending measures. While this role still is exceptional, there is good reason to believe that it will spread to many countries during the next decade. Maastricht-type rules and other efforts to stabilize public finance may spur national governments and their legislatures to frame budgetary decisions within preset totals. Where this occurs, legislative work on the budget will parallel the Government’s, and may result either in greater cooperation or greater rivalry between the two branches. In some countries, the legislature’s new responsibility for the overall budget will buy it greater independence in fiscal policy; in others, the legislature will behave more as a partner than as a adversary. The probability is that adversarial relationships will predominate in presidential systems and cooperative relationships in parliamentary regimes. But other variables, such as voting rules the party system, may intervene to induce cooperation in governments where power is formally divided and to generate friction in countries where power is formally shared.

62. Legislative activism may lead in an entirely different direction, however - not to greater fiscal discipline but to budgets in which pressure to spend more and to tax less generate chronic deficits and a progressive rise in the share of national income spent by the government. As unlikely as this may appear to contemporary promoters of legislative activism, it was the predominant view of legislatures throughout the 20th century. In many countries, the legislature voluntarily yielded budgetary power to the executive because it accepted the view that parliamentarians cannot constrain their political inclination to tax less and spend more. legislatures entrusted budgetary authority to the government because they could not trust themselves to make responsible financial decisions. This attitude is endorsed by prominent scholars who correlate the legislature's capacity to amend the budget with fiscal outcomes. For example, in an influential paper published by the European Commission, Jorgen von Hagen found strong empirical support for the hypothesis that limits on the amendment power of parliament and other rules strengthen fiscal discipline and result in relatively small deficits and public debt. There is good reason to challenge this finding, but its validity is less important than its widespread acceptance.

The Budget: Aiding and Constraining legislative action

63. Thus far, we have avoided using the word budget because during the formative period of legislative control of the purse, official budgets did not exist. It is generally agreed that this word was first used to describe government financial practices in England during the 18th century, more than one hundred years after Parliament's authority in taxation and expenditure was finally secured. The word budget was first used in official French documents early in the 19th century; it then spread rapidly to other developed countries. One of the earliest formal definitions appeared in an 1862 French law which described the
budget as “a document which forecasts and authorizes the annual receipts and expenditures of the State....” This definition contains the seeds of two rival conceptions of budgetary practice. One views the budget as a plan for a future period, normally the upcoming fiscal year; the other regards it as an authoritative decision on future receipts and expenditures. As a plan, the budget is a set of proposals that carry no social weight other than the influence the government has to sway legislative actions; as an authoritative decision, the government may tax and spend, subject to routine legislative approval, on the basis of the revenues and expenditures set forth in the budget. As a proposal, the budget does not expressly infringe on the legislature's primacy in financial matters; as an authoritative decision, it dictates or overrides legislative preferences.

64. Why did budgeting, which was seen as strengthening legislative fiscal control, turn into a means of subordinating the legislature? The answers lie less in the realm of legal authority and more in politics. The budget submitted to the legislature is the end product of a lengthy process of organizing, monitoring and controlling public finances. Putting together the budget and overseeing its implementation engages a vast enterprise of specialists centered in the finance ministry or a similar organization at the top of government. This ministry’s reach extends to all government departments and agencies, and entails sifting through vast amounts of financial and operational data. To do its job well, the finance ministry must also assess political demands and interests, as well as the efficiency of expenditure. When the budget is submitted, the finance ministry knows a great deal about public finance, and the legislature knows very little other than what the government wants of it. This information asymmetry places the legislature at an enormous disadvantage. Even with standing committees and modest staff resources of its own, the legislature is no match for the government. While they can compensate somewhat through the hard work of sifting through the estimates, legislators rarely acquire a deep understanding of how public money is spend or of the implications of appropriating more or less than was budgeted by the government.

65. The vast growth of government, beginning in the last decades of the 19th century and accelerating through most of the 20th century, further diminished the legislature’s influence. With growth, the budget’s line items were consolidated into broader categories. For example, rather than specifying each position in the public service, the budget estimates the amounts to be spent in each job classification or in a group of classifications. In some countries, consolidation was taken further, so that a single sum was entered for all personnel expenditures. Consolidation made the budget less unwieldy, but also reduced legislative control over individual line items. Another byproduct of government expansion was that the budget came to be seen more as a statement of public programs and objectives and less as an instrument of financial control. The budget also matured into a means of guiding and stabilizing the economy, and its totals acquired a fiscal salience that transcended the individual items of expenditure. In some countries, the budget also gained status as the means by which government managed its administrative entities and operations and prodded them to improve efficiency. As laudable as these transformations were, they subordinated financial control to larger budget purposes. In a legal sense, little had changed, politically hardly anything was the same.

The Decline of National Legislatures

66. Contemporary scholars speak routinely of the decline of national legislatures, not only on budgetary matters but on the full range of legislative responsibilities. Decline has occurred, they agree, despite the fact the modern legislatures are better organised and resourced than before. In their view, the decline has little to do with internal legislative operations, but to three external developments that have stripped parliaments of independence and control: (1) the rise of disciplined political parties which set the legislative agenda and compel legislators to defer to vote the party line; (2) the enormous escalation in public spending, and the concomitant shift away from spending on housekeeping and security functions to spending on entitlements and income support; and (3) the rise in interest groups and corporatist political
arrangements. In combination, these trends reduced many parliaments to debating clubs which have ample freedom to deliberate but not to decide. Although it is a sweeping generalisation which brushes aside important differences in political culture and structure, the "decline of parliaments" hypothesis appears to fit most OECD countries.

67. The foregoing paragraphs deal with the overall place of modern legislatures and governing institutions; it does not single out their budget powers. But a legislature cannot be influential in financial policy if it has been marginalized as a policy institution. The 1998 OECD Survey of budgeting developments asked:

"Does the legislature typically enact the budget a proposed by the government? How many amendments to the budget (in number and amount) are typically proposed by the government and opposition members of the legislature respectively?"

68. Most countries responded that they make no changes or only minor adjustments in the budget proposed by the government. Among the countries that have numerous legislative amendments, most reported that these do not significantly change the government's budget.

69. In some countries, the bulk of the adopted amendments come from the government itself or from legislators affiliated with it. This pattern indicates that working with the government rather than against it may be the most productive route to legislative influence. After it submits the budget, the government may accept or offer amendments, either to thwart opposition or to reward loyal members by embracing their proposals. In some countries, robust, behind-the-scenes negotiations between the government and legislative leaders give parliament some opportunity to influence the budget at the margins.

70. The OECD survey indicates that constraints on legislative influence arise more out of political considerations than from formal restrictions on its power to amend the budget. Table 2 drawn from the survey compiles country self-assessments on the restrictions faced by their legislatures. In pointing to political rather than legal factors, the data suggest that even if budget rules were changed to accommodate a broader legislative role, underlying political conditions may preclude significant change in legislative behavior. A corollary of this conclusion is that the impact of efforts to empower the legislature will vary among countries. Depending on political variables, changes that induce the legislature to take a more active role on the budget in some countries may induce continuing passivity in others.

71. The OECD survey invited each country to offer a brief response, without supporting analysis or explanation. Some of the details can be filled in by revisiting an insightful study published a quarter of a century ago on the budget role of six European parliaments. In The Power of the Purse: A Symposium on the Role of European Parliaments in Budget Decisions, David Coombes and his colleagues generally concluded that parliament had become marginalized on budget policy.

72. The problem for contemporary legislatures is that in the past they fought for a foothold in budgeting in order to represent the people. Today, the people do not want them to serve as controllers, for doing so would limit the flow of money and programs. Accordingly, legislators have to define a new role, that of promoting fiscal discipline, improving allocation of public money, and stimulating administrative entities to manage their operations more efficiently. Fulfilling these new roles requires (a) enhancement of legislative capacity and resources to deal with budget issues, (b) changes in both executive and legislative budgeting to promote fiscal discipline, allocative efficiency and operational efficiency, (c) new tools for reconciling long-term commitments such as entitlements and other "sticky" expenditures with short and medium-term budget objectives, and (d) redefinition of relationships with the government that recognizes the strong influence of political parties and interest groups on legislative behavior.
73. Currently, legislative budget work has as much to do with making policy as with controlling executive action. This entails a more integrated examination of the budget than many legislatures are prepared to undertake, as well as capacity to specify in law or by other means the performance required of those who spend public funds. Some legislatures have sought to hold on to a control orientation by shifting from ex-ante control of expenditure to ex post accountability for expenditures and results. But in view of the fact that reporting and auditing of performance are still underdeveloped in most countries, one cannot be certain that legislatures are prepared for this new assignment.

74. Contributing to improved allocation of public money requires that the legislature take a program perspective, and that it be prepared to shift money from lower priority and less effective activities to higher priorities and more productive uses. Realistically, however, this is a momentous task, especially for legislators schooled in the politics of distribution. Redistribution does not come easily to legislatures, if at all. But in light of the determination of many countries to reduce or stabilize public expenditure, the only way to find resources for new priorities will be to take them from older ones. Redistribution may be most difficult in the case of entitlements, where citizens have been programmed to expect benefits from government as a legal right. Nevertheless, quite a few OECD countries have been compelled by budgetary force majeure to trim these payments, though typically only at the margins. As aging populations add to budget pressures one may see even more vigorous efforts to curtail entitlements in the future.

75. In promoting an enlarged role for legislatures in budget policy, it must be recognized that budgeting is inherently a confining process. To budget is to routinize financial choice in accord with set of rules and procedures, to bar action outside the boundaries of the budget, to rule out certain actions and to rule in others. Budgets bring discipline to legislatures, just as they do to governments. In the absence of budget rules and procedures, decisions can be taken whenever there is the will to do so; with budgets, decisions must be orderly and consistent, and framed in both time and amount within preset boundaries. A legislature behaves in a more disciplined manner when it budgets than when it doesn’t.

76. The second concern about enlarging the scope of budgeting is that decisions on revenues and spending may sprawl to other legislative work as well. Rather than legislation being walled off from the budget, it is defined in budgetary terms and the fate of substantive law often depends on budgetary decisions. In countries where the legislature has been most active on the budget front, much of the session is devoted to financial matters. This has happened both in the US Congress and in Italian Chamber of Deputies. In some congressional sessions, two thirds or more of the recorded votes have been budget related. In Italy, efforts to have separate budget and legislative sessions have broken down under pressure to consider substantive laws under the expedited rules provided for budget actions.

77. To some parliamentarians, the greatest risk of expanded responsibility for the budget is that their work will become more technocratic and therefore will be based less on political judgement and more on technical expertise. Where legislative budgeting flourishes, legislative budgets staffs grows, as does the business of measuring fiscal impacts, use of accrual rather than cash methods, and reliance on assumptions rather than actual numbers. In some countries, one can detect the emergence of “yes, legislator” behavior, in which elected parliamentarians do the bidding of permanent staff.

78. How should one respond to these legitimate concerns? Not be denying them but by suggesting that the spreading influence of budgeting occurs even if legislatures are beholden to their old ways and unprepared for enlarged responsibilities. A capacity to budget does not transform politicians into managers; it enables them to exercise political power in a disciplined manner. In this writer’s view, only legislative luddites will oppose this new role.
79. During the last two decades, the focus of public sector budgeting and management has been moving from inputs to outputs in a significant number of OECD Member countries. Important elements of input management remain, but generally managers are now judged by how their programs perform rather than by how well they follow input control elements such as human resource and other central management rules. This development has enhanced the quality of management and increased effectiveness and efficiency. However, the output approach, now refined in some countries to include output based budgeting and accounting, has a number of limitations.

80. These limitations encouraged several OECD Member countries to give more emphasis to outcomes while continuing to be attentive to costs, inputs and outputs.

81. This development places on centre stage the need for better institutional links between policy formulation, political decision-making, resource-allocation, implementation, and evaluation.

82. While some OECD Member countries are currently implementing a more outcome-focussed approach, others are considering if and how they should embark on this next step in budgeting reforms. In this process, practitioners in central policy formulating institutions, as well as program managers, are striving to define, evaluate and manage outcome measures. And they are labouring to establish links between policy formulation, political decision making, management, audit institutions and evaluators.

**Overview**

83. In outcome-focused management and budgeting, the government defines what a particular program or function is to achieve in terms of the public good, welfare, or security; for example, outcomes to reduce the incidence of disease, or ensure, for most students, a certain level of educational attainment. Having defined the outcomes, the government then periodically assesses how well it does in achieving these outcomes.

84. In principle, outcome-focused budgeting and management involves formulating, implementing and evaluating policies, taking into account the need to establish the linkages between the five elements mentioned above in figure 1 (ex ante, during implementation and ex post). Thus, outcome-focused management and budgeting brings together organisations involved in policy formulation, policy executing and audit or evaluative institutions, as well as the connections between the three institutions.

85. An outcome-focussed approach aim at better aligning inputs, outputs and outcomes and then systematically have institutions reflect these policy goals as they carry out their activities or outputs.

86. While assessments of outcome achievement can be made regularly, the frequency of these assessments is typically in terms of years rather than months. Given this time horizon, managers often rely on outputs to make short-term assessments of how well a program is progressing in achieving its desired outcome. Use of outputs also permits timely intervention if the performance trend is unfavourable or problems arise.

87. Often, a lag of several years or more occurs between the spending of money on a program and the effects of that expenditure being seen in terms of program outcomes. This lag can cause program officials to see themselves as being accountable for the consequences of resource and management
decisions made by their predecessors. Similarly, the results of their decisions may not occur until after other officials have succeeded them. (Outputs are usually measured over a shorter timeframe and there is a closer and immediate association between budgeting and management actions and program performance.)

**Country approaches**

88. Process oriented management, management by political decree, legal commands and management by campaigning has never really gone out of fashion. Similarly, input controls have never ceased to receive attention from politicians and such controls continue to have a firm hold of some civil servants in central ministerial departments. Thus, the change of management regimes in OECD Member countries has generally been cumulative: when new approaches to management and budgeting are introduced, some elements of the old regime are preserved.

89. The efforts to introduce outcome-focussed management and budgeting is no different in this respect. It does not replace the remains of input management, the process of output management, or other techniques from the public management tool kit. The aim in member countries is to complement these approaches by focussing on outcomes.

90. In Australia and the Netherlands, the main budget and financial reports are now being restructured around outcomes. This restructuring is accompanied by ambitious plans to change the focus of budget negotiations. Accrual accounting systems are intended to underpin the allocation of costs to outputs and outcomes.

91. In countries such as Canada, the United Kingdom and the United States, agencies have to provide separate performance documents with outcome and output goals together with the main budget documents. Public organisation managers are held accountable on the basis of annual reports, which present whether planned goals have been achieved and how much money has been spent for these purposes. In France, an annex is presented together with the main budget document mapping performance and illustrating how outputs relate to outcomes. The main focus, however, is on outputs. France is currently considering whether the core budget document should be restructured on the basis of outcome and output targets and information.

92. Other OECD Member countries focus mainly on inputs and outputs in their budgeting and management systems, though reforms are under way. In New Zealand, the budget is structured around outputs. Outcome targets and information is only gradually being introduced. Some public organisation managers, however, are held accountable for outcomes if these are deemed to be controllable and information on performance can be made available. In Japan, efforts are under way in some ministries to adopt a more systematic approach to outcome evaluation. In Norway, performance information is integrated in the budget documents and the management processes. However, the main emphasis is still put on inputs and outputs, but the number and quality of outcome information
THE OECD AND GOOD GOVERNANCE

Our aim is to support and facilitate the efforts of Member countries to achieve ever higher standards of effective and good governance in accordance with their needs and priorities and to draw on the results of our work to enhance the OECD relationship with non-members.

In pursuit of this aim, we will focus on the principal elements of good governance:

- **Accountability:** government actions, decisions and decision-making processes are open to scrutiny by public agencies, parliament, civil society and, in some instances, supranational bodies and institutions;

- **Transparency:** government is able and willing, through the provisions of information and explanation to show the extent to which its actions and decisions are consistent with clearly-defined and agreed objectives based on sound analysis;

- **Efficiency and Effectiveness:** government strives to produce high quality cost-effective public outputs, including laws, regulations and services delivered to citizens, and monitors and evaluates its performance;

- **Responsiveness:** government has the capacity and flexibility to respond rapidly to changes, consults widely and is willing to re-examine critically the role of government;

- **Forward-Vision:** government is able to anticipate future problems and issues based on current data and trends and develop policies that take into account future costs and anticipated changes (e.g. demographic, economic, environmental, et cetera);

- **Rule of Law:** government enforces equally transparent laws, regulations and codes.

ACTIVITIES

*The OECD Budgeting Database*

93. The OECD maintains an extensive database on budgeting institutions, systems, and instruments in Member countries. This data has been gathered primarily through the annual Survey of Budgeting Developments, conducted prior to each meeting of the Working Party. This is a fundamental resource for the Working Party and facilitates the entire programme of work. It is proposed to make the database still more comprehensive and to enhance its accessibility, especially on-line.
Country Reviews

94. The Working Party customarily conducts a review of the budgeting system in one Member country at each meeting. The objective of this programme is to provide an overview of the budget process in the country under review and to offer other Member countries an opportunity to comment on specific budgeting practices in the country under consideration (“peer review”). It is proposed to continue this practice, and to explore the possibility of increasing the number of country reviews conducted each year to two.

Financial Accountability

95. There are major reforms underway in a number of Member countries in the area of accounting and financial reporting. This is best exemplified by the move to accrual accounting and budgeting practices. Following on last year’s Symposium, it is proposed to convene the senior officials responsible for accounting policy in Member countries again to discuss financial accountability issues more broadly, including the development of international accounting standards which are of concern to a number of Member countries.

Role of the Legislature in the Budget Process

96. The Working Party first started work in this area in 1998 with a data gathering exercise and discussions at its annual meetings. This work culminated in the inaugural Symposium of Parliamentary Budget Committee Chairpersons, which took place in January 2001. It is proposed to convene this group regularly in order to foster more informed discussion of budgeting and management issues and to study the various roles legislatures play in the budget process and how this contributes to different budgetary outcomes.

Future Expenditure Issues

97. A significant number of Member countries are facing unprecedented fiscal claims in the near future as the result of demographic and other changes. Responding to these changes is inherently difficult as it by definition involves “sacrifices”. This subject has been thoroughly analysed in recent years from a technical point of view. It is proposed to study this activity from a more political approach, focusing on strategies applied in individual Member countries to achieve reforms, highlighting the political obstacles and opportunities. It will be explored whether a ministerial meeting on this subject would be feasible.

Governance and Accountability of Agencies

98. Agencies are defined as organisations that are not under the direct political and administrative supervision of ministries. The number of such bodies has been increasing significantly in Member countries in recent years as part of overall public sector modernisation reforms. While recognising that substantial benefits can be gained from such organisational arrangements, this work is motivated by the difficulties that Member countries have experienced in designing and maintaining effective accountability mechanisms for such bodies. Based on a very recent Expert’s Meeting, it is proposed to take this work forward in order to assist Member countries to strengthen the governance arrangement of these bodies, including the possible development of “Corporate Governance Principles for Agencies.”
Fiscal Relations Between Levels of Government (Fiscal Federalism)

99. Maintaining “whole-of-country” budgetary balances requires taking account of the budgetary situation at both national and sub-national levels of government. At the same time, there is a trend for increased decentralisation of policy and fiscal decision-making in a number of Member countries. This situation may require new mechanisms for the co-ordination of fiscal policy across levels of government. It also has implications for the assignment of revenue and expenditure programs to different levels of government and for the system of fiscal transfers between levels of government. It is proposed that this activity analyse comparative approaches that different Member countries have taken in this area.

Managing Surpluses

100. A significant number of Member countries are experiencing budgetary surpluses at the moment. The question arises how those surpluses should be managed. It is proposed to study comparative practices in Member countries for optimum debt level management and the management of financial assets, including needed governance arrangements to ensure the quality of government investments.

Performance Budgeting

101. A major theme of budgeting reforms in Member countries has been the shift in focus to results and managerial flexibility and away from inputs and centralised controls. The Working Party has devoted time to discussing specific aspects of implementing outcomes and outputs at its current and previous meeting. It is proposed that the Working Party next assess performance budgeting: What has been its impact over the past 10 years or so, and what has been achieved in relating performance information to the budgeting process.

Gender Budgeting

102. The OECD is committed to achieving equality between women and men in all areas of public and private decision-making and is promoting this through its various activities. The budget is the prime policy instrument of governments and a number of Member countries have applied gender analysis techniques to budgeting. UNIFEM, the United Nations Development Fund for Women, and the OECD are organising a major conference, to be hosted by the Belgian Government in Brussels on 16-17 October. The conference will showcase policies and techniques for applying gender analysis to the budget. It is proposed to support this work and to assist diffusing information on gender budgeting practices in Member countries.

E-Government

103. During the recent OECD Ministerial, ministers called on the OECD to conduct work in the area of E-Government. Delegates are asked to consider how the Working Party could best respond to this request, i.e. the implications of E-Government for budgeting and management.