SBO PROGRAMME OF WORK: 2001 to 2004

Twenty-third Annual Meeting of OECD Senior Budget Officials
Washington D.C., 3-4 June 2002

For further information, please contact: Alex MATHESON
Tel: +33-1 45 24 90 85; Fax: +33-1 45 24 17 06; E-mail: alex.matheson@oecd.org
SBO PROGRAMME OF WORK: 2001 TO 2004


1.1. From an instrumentalist to a systemic approach

1. Public Governance is an over-arching priority for the OECD and the core interest of the Public Management Service (PUMA). Increasingly, the work being done in PUMA, under the auspices of the SBO Working party, has been oriented to the role of the budget and financial management process in shaping the incentives on decision-makers – whether politicians or officials. The political economy of budgeting is thus now at the heart of our work. In practice this means that our attention to the subject is less on particular instruments involved in budgeting, and more on its system-wide impact. Of all of the technologies of government, the budget and finance system is also the most recognisable, from one country to another, and the area of public management where there has been the most convergence amongst successful economies.

2. The importance for governments of the budget process – always high – has increased further as governments have:

- embraced the importance of signalling transparent and predictable fiscal policy;
- become interested in including goals and measures in budgets and accounts;
- moved to apply full costs and liabilities to budgeting for public services;
- sought to use the budget process to encourage future oriented public decision-making.

1.2. Activities in 2001/2002

3. Accordingly, since the SBO meeting in June last year, the main activities of the Secretariat have been:

- a Symposium on Public Sector Accrual Accounting;
- an expert group and report on budgeting for the longer-term future;
- an expert group and report on implementation challenges in performance-oriented budgeting and management;
- an expert group, symposium and set of papers on Distributed Governance;
- three issues of the OECD Journal of Budgeting (see separate report PUMA/SBO(2002)4);
• Outreach Programmes in China, Indonesia, Asia Regional, South Africa and Eastern Europe (see separate report PUMA/SBO(2002)12);
• report for, and funded by, the World Bank on Distributed Governance;
• commencement of a contract with the World Bank to extend the Budgeting Data-Base;
• Peer Review of Budgeting System of Finland.

4. The written products of this programme of work are available as conference papers.

1.3. **Resources 2001/2002**

5. The SBO-related work is done by the Budget and Management Division (BMD) of the Public Management Service (PUMA) which is responsible through the Director to the Public Management Committee – PUMA’s governance body within the OECD, for carrying out the work of two Working Parties – the Senior Budget Officials Working Party, and the Human Resources Management Working Party. Under the overall direction and allocation of resources for the OECD Council, the PUMA Committee sets the priorities for PUMA and oversees the programme of work.

6. During the last year BMD has had 11 full-time equivalent staff: five professional staff and two support staff paid by the OECD, three professional staff paid by individual Member governments and a half-time professional staff and a half-time support staff paid out of special project funds. About 7.25 fte of these staff work on SBO-related matters. The programme could not operate without the assistance of Member governments in providing seconded staff. During the year we have had seconded budgeting staff from Korea, Italy, New Zealand and the City of Hamburg in Germany. PUMA is most grateful for this assistance. The diagrams attached show how PUMA staff resources are currently used on SBO activities.
7. BMD’s operational funds from the OECD are at present 33 000€ per year – these funds are to cover travel, consultancies and meeting related costs. About 22 000€ of this sum is available for SBO work. This is insufficient to cover the normal SBO work programme – however we have been able to supplement these funds where externally funded (especially Outreach-related) activities and reports can be made to coincide with core work. We also charge users for some activities. The low level of core operational funding means that we have little capacity to purchase outside expertise on budgeting matters – and the multi-pocket budgeting we undertake to get through our core programme tends to scatter our attention more than is desirable.

8. BMD’s level of funding is determined by that for PUMA whose budget is in turn decided by the OECD Council at which Member countries are normally represented by their ambassadors. For the 2002 budget, and the second year running, PUMA’s budget was reduced.

1.4. Comment on 2001/2002

9. The key issue for PUMA continues to be where we can best add value to our Members. We felt that 2001/02 was an important year’s work in terms of broadening the budgeting work to include both performance and structure. We hope we are in the process of providing information and analytical tools in these areas which will assist Members to make balanced decisions on process and organisational changes. While being supportive of innovation, we are also conscious that public management is a fashion prone business, and that certain useful technologies, such as performance measurement, can become a menace if not tempered by a clear understanding of their limitations and the bounded nature of high-level decision-making. We are concerned too to make a greater effort to ensure there is some empirical basis on which to judge changes in public management processes.

10. We had considerable success in obtaining funding for work in respect of non-member countries, and this provided some sorely needed resources for our core work. We were also delighted by the degree to which members of the SBO network were prepared to become personally involved in this work. Our underlying concern as we prepare for the next two years however, is to ensure that we are making a sufficient investment in research and analysis on the fast changing and rich experience of the 30 countries represented here. SBO is a uniquely enduring and successful network and it is important that the Secretariat be able to do it justice.


2.1. Over-arching theme: The political economy of resource reallocation

11. Over the past two years, the work of the SBO and the Secretariat has focused on sorting through the problems and lessons learned as countries modernise their budget process and public service. These topics have included the use of accruals, performance budgeting, long-term budgeting and “distributed governance” (the use of arms-length or semi-autonomous agencies.) It is proposed that over the next two years our focus be on synthesising this work by addressing the broad theme of the political economy of reallocation – what budgeting and management arrangements best facilitate the movement of resources from one area to another in response to changing national priorities. There is an element of time in reallocation – as well as interaction with the other functions of budget – control of the aggregates and operational efficiency. The needs of a longer time horizon and the various functions of budgets do not always work in co-ordination or harmony. The proposed programme of activities which follow, will seek to extract the lessons which OECD Member countries have learnt about reallocation efforts in recent years.
2.2. **Possible areas of activity**

12. The following are areas of activity which we consider the OECD is well placed to undertake, and which we think will advance the interest of SBO members in strengthening capacity to reallocate resources in response to changing national circumstances and priorities. Delegates are encouraged to indicate the activities of most interest to them during this discussion.

2.2.1. **Structure of budget process**

13. Often overlooked, the structure of the budget process – and changes to the process – have a profound effect on the success and the shape of wider government reform efforts. This proposed activity looks at how structure including the fiscal framework aids or hinders the process of reallocation. How have changes to the budget process in NPM countries, in countries that focus on total spending limits, and in countries that focus on budget balance allowed them to meet the various time horizons of budgeting. A special dimension of this work would be to look at how short-, medium- and long-term horizons clash and how to make a more fluid process to meet the various needs of the budget.

2.2.2. **Fundamental expenditure reviews**

14. Several countries undertake complete expenditure reviews as part of a reform process or as a means of re-setting baselines. These are major endeavours aimed at forming the basis for large-scale reallocation. It is proposed that this activity would take stock of the mechanisms of how countries go about these reviews and make an assessment of the effects of the reviews.

2.2.3. **Policy brief on incorporating the long-term into the current budget**

15. This product would build upon the discussion at the 2002 SBO to draft a series of common or best practice guidelines for countries to consider as a basis for making decisions on long-term spending. The guidelines would consider both the technical/presentational side as well as the political economy aspects of budgeting over the long-term.

2.2.4. **Fiscal relations between levels of government (Fiscal Federalism)**

16. 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. The OECD is actively considering a horizontal programme of work and we would adjust resources to assure a voice in this activity.

2.2.5. **Impact on reallocation of departmental structure and accountability arrangements**

17. There is a hypothesis that the efficiency gains from the use of smaller individually tailored organisational entities (under either core or distributed governance arrangements) may be off-set by the fact that such differentiated organisational forms may make reallocation across government more difficult. A similar argument runs about a trade-off between detailed output accountability and outcome-focused
reallocated. The activity will seek to assess the validity of these propositions including whether they apply to some kinds of government activity rather than others.

2.2.6. Role of budgetary process in promoting modernisation

18. Over the next two years, the Budgeting and Management Division is producing a major report looking back at the past 10 years of Member country efforts to modernise their government and civil service drawing out conclusions and lessons learned. A substantial focus of this publication will be how changes in budgets and budget process have spurred and affected the modernisation process. The report will attempt to wrap up the work of the SBO and work in PUMA that focused on organisational structure (agencies, performance management and budgeting, the use of accruals and the modernisation of financial management, privatisation and civil service.

2.2.7. The OECD Budgeting Database

19. 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. The OECD recently received a grant to expand this survey and create a more comprehensive set of data. The survey will also be extended to non-member countries. This will be a major effort over the next year and, to be successful, it will require the full support of Member countries and particularly the SBO. The program will be launched in the next week and will take the better part of a year to complete. To reduce the response burden, the survey will be done in the familiar “tick-the-box” format of the annual SBO survey. Countries should expect to receive the survey by January. (Please see the accompanying description of the project.)

2.2.8. Country reviews

20. Under the auspices of the Working Party the Secretariat 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 and resource management and accountability system 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”).

21. To date these reviews have been carried out for Sweden, Canada, the Netherlands and Finland. The studies are a unique external look at the total system dynamics of a country’s public expenditure arrangements. They can not only help officials in the country in question take a birds’ eye view of a critical governmental process (which is typically not documented as a single system) but the peer process and resultant report also contribute to the learning of other countries.

22. This is a valuable SBO product and we plan to strengthen the review process (particularly by better articulating the basis in which the main evaluative judgements are made) and we wish to explore the possibility of increasing the frequency to at least two studies a year. We could afford to do this however only with special funding and/or charging the cost to the country in question.

2.2.9. Modern financial control

23. This activity is to revisit the issue of financial control across OECD Member countries in the light of developments in budgeting, management and accountability in different administrative systems. Issues of interest to at least some Members are the changing role of external controllers, the relationship
between external and internal controls, the verification of performance information, the assurance of reports from arm’s-length bodies, the contracting out of audit, fiscal risk management, and improving compliance. Control issues vary between kinds of administrative system, and the degree to which the total public management system is in transition. The activity will have a general component, and a component which addresses issues of special interest to a group of Members. The latter activity may need some direct funding from the countries involved.