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MAIN ISSUES

20th Annual Meeting of Senior Budget Officials
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For further information, please contact Jon Blondal:
Tel (33-1) 45 24 76 59; Fax (33-1) 45 24 90 85; E-mail: jon.blondal@oecd.org

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Or. Eng.

MAIN ISSUES

1. This paper summarises the contents of each of the substantive papers which have been prepared for the meeting:

- Budgeting in a Surplus Environment
- Fiscal Transparency Practices
- Performance Management and Financial Management – How to Integrate Them?
- Measuring Public Sector Productivity
- Budgeting and Management Country Studies – Proposed Framework

and proposes a number of questions upon which participants may wish to focus their discussion. These are, however, not intended to limit discussion and participants should feel free to raise any issue which may not be covered in this paper.

2. The *Budgeting and Management in Canada* document itself will contain a summary and a number of issues for discussion.

3. This paper also contains a discussion of the Secretariat's future programme of work in budgeting and financial management.

BUDGETING IN A SURPLUS ENVIRONMENT

Surplus Budgeting in the US, or Stop Me Before I Spend Again

BACKGROUND

4. A significant number of Member countries have moved (or are moving) from a situation of budget deficits to near balance or budget surplus. Budgetary rules have generally played an important role in achieving this transformation. Fiscal surpluses, however, pose new challenges for maintaining spending discipline as ministries and agencies may see the surpluses as a source of funds for new spending. This paper examines US budget legislation and practices in achieving and maintaining surpluses. The paper was prepared by Mr. Barry Anderson when he was Vice President of the Jefferson Consulting Group. Previously, Mr. Anderson was Assistant Director of the Office of Management and Budget. He is currently Deputy Director of the Congressional Budget Office. The views expressed in this paper are those of the author and do not necessarily represent the views of the Congressional Budget Office.

SUMMARY

5. In the 1980s, budget deficits in the US quickly grew to unprecedented nominal levels: over $200 billion annually, with most forecasts containing deficit estimates continuing at the $200 billion level for the foreseeable future -- or, "as far as the eye can see." In response to the high deficits, which were not dramatically reduced even in years with higher economic growth, the US Government began a series of ever-more-complicated changes to its budgetary legislation and practices whose objective was to decrease and eventually eliminate annual deficits. The primary changes to US budgetary legislation and practices during this period were:

- A series of one -- or two-year budget agreements between the Congress and the President, which generally specified limits on annually-appropriated discretionary spending, reductions in the rate of growth in mandatory, or entitlement spending, and increases in taxes and fees;

- The Gramm-Rudman-Hollings (G-R-H) Act of 1985 and an extended version of the Act in 1987, which specified declining deficit targets that were enforced (in the absence of legislation that met those targets) by uniform percentage reductions (referred to as sequestration) in selected mandatory and most discretionary spending programs; and,

- The Budget Enforcement Act (BEA) of 1990, which replaced the deficit targets of G-R-H with a more complicated series of limits on discretionary spending, constraints on new mandatory spending and tax cuts, and reforms in the process of budget accounting, particularly for government direct and guaranteed loan programs.

6. Despite this series of new legislation and practices, deficits in the US did not decline, and in fact reached an all-time nominal high of over $290 billion in fiscal year 1992.

7. The fiscal situations and subsequent government responses in many other OECD countries during this time were substantially different from what occurred in the US. High deficits in the early 1980s were common, but many countries were able to lower their deficits -- some in fact reaching surpluses -- by the late 1980s, many without having to resort to complicated new budget legislation or procedures. It was not uncommon during the late 1980s and early 1990s for many countries to question the ever-more-complicated, but apparently unsuccessful, US efforts to reduce deficits.

8. The fiscal situations in the US and in many other OECD countries changed dramatically as the 1990s progressed. In the US, the enactment of the Budget Enforcement Act (BEA) in November 1990 was soon followed, beginning in April 1991, by a period of strong economic growth that has continued to the present time. In addition, the government spending required to resolve the obligations that arose from deposit insurance for failed US savings-and-loans institutions was essentially completed in fiscal year 1992. The added revenues that resulted from the economic expansion and the lower growth in mandatory spending (especially in health care), along with the spending limits enacted in the 1990 BEA and the end of the savings-and-loans spending, dramatically reduce deficits. The limits on spending in the BEA were extended in 1993, and again in 1997, but the growth in revenues (and the decline in the growth of mandatory spending) was so strong as a result of the continued economic expansion that a surplus of $70 billion was attained in fiscal year 1998, and surpluses are forecasted for many years to come.

9. Meanwhile, many of the other OECD countries that had so successfully reduced deficits in the late 1980s and early 1990s found that their fiscal successes did not last. By the mid-1990s, deficits had returned and some countries began to question their budgetary processes.

10. In addition to the above trends, the approval of the Maastricht Treaty for a common European currency, the Euro, required European countries that wished to convert to the Euro meet the budgetary

constraints imposed by the Treaty. Countries believed that the monetary union would promote greater economic growth and that the political costs of the budgetary constraints imposed by the Treaty would be more than compensated by the political gains of greater economic growth. The Treaty required that all countries begin to take action to lower their deficits to not more than 3 per cent of their GDP and to decrease their debt to not more than 60 per cent of GDP by fiscal year 1997. After having adopted the Euro, countries were required by the Treaty to maintain these targets over the business cycle or potentially be subjected to an increasingly severe set of sanctions. There are obvious similarities between the budgetary constraints and sanctions contained in the Maastricht Treaty and those imposed by the G-R-H legislation in the US, as the following table indicates:

	Maastricht	US	
Constraints		G-R-H	BEA
‣ Deficit limits..................	3 % of GDP over cycle	Nominal Targets	None
‣ Debt limits.....................	60 % of GDP over cycle	None	None
‣ Recession exception.......	Yes	Yes	Yes
‣ Spending targets............	None	None	Caps and PAYGO
Sanctions			
• First level......................	Moral Suasion	Moral Suasion	Moral Suasion
• Second level..................	Deposit with European Council is held, perhaps forfeited	Aggregate sequester of mandatory and discretionary spending	Detailed Sequester of category of spending where targets have been exceeded
• Third level....................	Expulsion?	None	None

11. Both Maastricht and G-R-H impose limits on deficits. Both specify exceptions for periods of recession. They have similar sanctions, starting with “moral suasion”, i.e., the power of the populace, the media, and other legislators to encourage adherence to the constraints, and continuing with broad-based sanctions that affect governments more in the aggregate than the BEA sanctions.

12. G-R-H’s constraints and sanctions did not produce the targeted decline in deficits. The reasons for this clearly include misestimates of the rate of economic growth. But just as important in explaining the problems with G-R-H is the nature of its constraints and sanctions. Aggregate deficits were usually affected more by economic and technical factors outside the control or influence of the political process than by annual legislation. Moreover, the size of the sequesters required to eliminate deficit increases caused by economic and technical factors was occasionally so large that the threat of sequester was not an effective deterrent to new spending legislation. G-R-H’s aggregate sequester sanctions impacted the entire political spectrum, from those who strongly supported G-R-H and fiscal restraints to those who worked to overturn it. Moreover, as a prerequisite to economic growth, deficit reduction was not truly embraced by the political spectrum until the 1992 presidential election. Before then, public opinion polls consistently reflected overwhelming support for balanced budgets, but that support dissipated when specific spending

or revenue changes needed to achieve balance were proposed. Thus, moral suasion had limited effectiveness in the G-R-H period.

13. Although the rate of economic growth may have been a more important factor than the nature of G-R-H's constraints and sanctions, the BEA method is viewed as a more effective and equitable method of constraints and sanctions. The political process accepted the BEA's constraints on spending to a much greater degree than they accepted G-R-H's arithmetically determined annual reduction in deficits. In addition, the spending constrained by BEA was generally not influenced by economic and technical factors. Thus, there was much more of a willingness to abide by the constraints. In fact, the explicit targets helped create an atmosphere of reduced expectations, which eased the political costs of spending restraints. If the spending targets were threatened, moral suasion was a much more powerful sanction under BEA than it had been under G-R-H.

14. The similarities between the Maastricht and G-R-H constraints and sanctions may produce similar results. The experience and problems that some countries have already had in meeting the Maastricht constraints may encourage the European Community to consider BEA-like constraints and sanctions as an alternative to their current system.

Caps on Overall Discretionary Spending. Annually provided discretionary spending is limited by two simultaneously enforced caps: one on budget authority, which provides permission to spend; the other on outlays, which is the spending itself. Although funding for unforeseen natural disasters has pushed actual spending slightly above the caps for most years, the caps have been relatively effective in limiting discretionary spending; that is, the caps have generally forced trade-offs or compromises among programs that would not have been made in their absence. The effectiveness of these caps is not related to their redundancy, but rather to their enforcement mechanisms (see below) and to the long period to which they apply: 5 years.

PAYGO. Non-annually appropriated (or mandatory) spending programs and tax collections are very difficult to cap because they are greatly influenced by economic and demographic factors outside the context of legislation. Thus, a different control mechanism was created: expansions of non-annually appropriated spending and reductions in taxes are limited to the extent that they must be fully offset. These limits are called "PAYGO", which is short for pay as you go. Tax cuts may be offset by spending cuts, and spending increases may be offset by tax increases, but PAYGO prohibits any expansion of new benefits without appropriate offsets. Like the caps on overall discretionary spending, the effectiveness of the PAYGO rules is related to their enforcement mechanisms and to the long period to which they apply: 5 years.

Sequester Enforcement Mechanisms. The mechanism used to enforce the caps on annually provided spending and the PAYGO rules are called sequester. If the caps are exceeded or increases in spending and taxes covered by PAYGO are not fully offset, then after the Congress adjourns the US Office of Management and Budget is required to reduce funding by a uniform percentage for all annually-appropriated spending programs (for the caps) or for a select number of non-annually-appropriated spending programs (for PAYGO) until the excesses or net increases are eliminated. Taxes are not increased to offset the PAYGO excess; only select non-annually-appropriated spending programs are cut. The sequester process, although rarely used and never for large sums, is very effective in discouraging legislation from exceeding the caps or breaking the PAYGO limits. A similar sequester process was used to enforce the deficit targets (see below) of the Gramm-Rudman-Hollings law, but because the deficit targets eventually were far below actual deficits due to inaccurate (and uncontrollable) economic and technical forecasts, the threat of very large sequesters was ultimately not effective in restraining spending.

Baselines. The above rules, particularly the PAYGO rules, should be measured relative to a set of projections, or baselines, made independent of the political process. Independent baseline projections are required for fair estimates of the impacts of proposed legislation. Having baselines established by an independent, non-political agency, particularly one that does not report to the executive branch of government, is one way to promote objective baseline projections.

Shutdowns. In the winter of 1995 -- 1996, the inability of the Clinton Administration and the Congress to agree on what programs to fund within the discretionary spending caps for fiscal year 1996 led to an impasse where no funding at all was provided for several agencies. This absence of funding “shutdown” or closed several agencies, except for activities necessary to preserve life or property, for several weeks. In addition to different spending priorities, some of the debate revolved around the Clinton Administration’s efforts to expand the gross level of the caps on discretionary spending by offsetting the increases with cuts in mandatory spending (PAYGO) programs. Partial, short-term government shutdowns have also occurred in other years, but they are not an intrinsic part of the US budgeting procedures. They do demonstrate the powers of the caps to force political compromise, even if the process to reach that compromise is an inefficient one.

15. The growth in the US economy is primarily responsible for eliminating the US Government’s deficits. Continued growth promises surpluses over the near future. *Budgetary laws and practices have clearly helped eliminate deficits and they are absolutely needed to keep the surpluses from being spent away*. Central budget offices will receive little help or rewards for policing budgetary rules, but the rules’ effectiveness in helping to improve fiscal policies and the economy makes the effort worthwhile.

ISSUES FOR DISCUSSION

A. History has shown that periods of budget surpluses are generally short-lived, discipline dissipates and deficits return. Is this inevitable due to economic cycle and the nature of the political process?

B. Are the approaches that were successful in moving from deficit to surplus likely to be successful in maintaining surpluses?

C. What practices (rules, etc.) could be introduced to maintain surpluses?

D. An outlook for recurring budgetary surpluses has considerable implications for the level of debt. Have countries reviewed their debt (and financial asset) management objectives?

FISCAL TRANSPARENCY PRACTICES

BACKGROUND

16. Fiscal transparency is defined as the public disclosure of all relevant fiscal information on a systematic and timely basis.

17. An opportunity exists for the OECD to take on a leadership role and through this speed-up the world-wide shift to better fiscal transparency. In general, OECD member countries tend to adopt budgeting and reporting practices that are towards the more sophisticated end of the spectrum, and accordingly they are well-placed to demonstrate an enhanced commitment to fiscal transparency.

18. One way for the OECD to do this would be to develop a set of best practice recommendations recognising the degree of sophistication of Member countries' budgeting and reporting practices

SUMMARY

19. The following transparency related reports are drawn from the country responses to the Secretariat survey and could be considered a starting point for the determination of best practices in fiscal transparency:

Pre-budget statements

What: A report outlining *aggregate* levels of revenue, expenditure, surplus or deficit, and debt. Can be expressed as percentages of GDP (for example, a maximum deficit of 3 per cent of GDP) and in nominal terms, and cover the upcoming fiscal year and the following three years.

When: Several months prior to the release of the government's budget proposal.

Why: The objective is to cast budget policy in a more macroeconomic and medium-term setting, thereby establishing a top-down fiscal policy "anchor," i.e. a pre-determined limit on total levels of expenditure. Focuses debate on the appropriate size of the public sector, the sustainability of the settings and the economic impact of aggregate revenue, expenditure and debt movements. Such statements can help get buy-in for difficult budgetary decisions and lock-in to the aggregates, so that expenditure proposals are considered within the context of a hard budget constraint. In several countries, the government presents these plans to the legislature but it varies whether the legislature formally approves them or not. Each annual budget should show how that budget relates to the fiscal objectives set in these statements.

The budget and its economic assumptions

What: The budget is the primary document for seeking parliamentary approval for expenditures. The budget should encompass all planned government expenditures.

A transparent budget requires explicit detail of the economic assumptions used. Sensitivity analysis can show the impact of a change in the economic assumptions on budgeted outturn. A clear comparison can be made between the economic assumptions used in the budget to those used by non-government forecasters. Where credibility of government forecasts is especially low, it may be useful to establish a panel of independent economic forecasters to recommend the economic assumptions to be used in budget preparation.

In recent years, many countries have also adopted "fiscal rules". In such cases, transparency requires reconciliation of the budget position to those rules.

A transparent budget should also include:

- Forecast financial statements -- these should parallel the year-end accounts to be presented. These should occur at whole of government level and at other levels reflecting the accountability regime in place for the subsidiary units of government.
- Forecast performance statements -- these should show what is expected to be achieved through the use of public money. Such statements should reflect the accountability regime in place for the subsidiary units of government.
- A medium term framework -- this should provide a mutli-year spending and revenue framework, making it clear how the upcoming year relates to the out years.
- A statement of fiscal risks -- this should detail the known risks to the fiscal position. Where possible, the listing of specific risks should include an estimation of the monetary value of the risk and some assessment of the probability of its occurring. This can be a logical place to include the discussion of the fiscal exposure to changing economic events and cover contingent liabilities estimates, commitments that are difficult to measure and other events which may have a material effect on the budget but which are difficult to assess.
- A statement of tax expenditures -- an estimate of the costs to the tax base of the preferential tax treatment provided to some activities. The basis for measurement should be made very clear, as the starting point tax base is not generally clear. This informs consideration of the government's budgetary choices.
- A statement of any quasi-fiscal activities -- this should make transparent the nature of any such activities being undertaken outside of the budget sector. Where possible, and material, the fiscal significance should be estimated.

When: Approval prior to the start of the fiscal year.

Why: If approved prior to the start of the year, the budget acts as the authority for the whole year. Such budgets can obviate the need for "supply" periods and, in some cases, gives greater credibility to the allocations provided. Transparent assumption practices reduce the likelihood of derailment due to reliance on unreasonable forecasts.

Tracking and update reports

Monthly outturn reports

What: Reports showing the progress in implementing the budget as planned on pre-established dates. They should contain a comparison between the actual outturn and the planned outturn or forecast track. The outturn -- both planned and actual -- should be disaggregated by major functional categories and economic categories. A brief commentary should accompany the numerical data. For example, if a divergence between planned and actual occurs, it is very useful to have a commentary on why this happened.

When: Monthly. Promptly, within five weeks of the end of the period being covered.

Why: Informs markets and others of the progress in hitting the budget. Assists in no surprises.

Mid-year updates

What: A comprehensive update on the economy and the fiscal position. This should include an update on economic forecasts, taking into account new information since the budget, and the implications of the update for the budgetary position. It provides an opportunity to update formally the expected budgetary outturn and budgetary track for the remainder of the year.

When: Midyear.

Why: A pre-commitment to updating the budget track reinforces the orderly management of the fiscal position, and lessens the chances of surprises.

Annual financial statements

What: Annual financial statements -- or the government accounts -- are a major compliance report for parliamentary and wider accountability and are certified by the auditor. The annual financial statements are a special case of the monitoring reports referred to above. The main differences are that the annual statements are audited, and contain more detail than would be expected in the midyear or monthly updates.

Some aspects of the design and coverage of financials statements will be determined by the accounting and budgetary standards and policies used (see below). An important condition is that these statements should re-present the main budgetary statements, which are by their nature *ex ante*, on an *ex post* basis.

High transparency financial statements should include statements of the following --

- Budgetary outturn -- as above; this should be supported with information on how variations to the budgetary outturn are sourced, including, where applicable, unappropriated or contingency funded expenditures.
- Debt structure and borrowings -- the structure and characteristics of debt held by the government. These statements should include the following: duration, form of interest (variable versus fixed), currency of denomination and counterparty risk.
- Commitments -- this covers political and operational commitments, which are not “captured” in the current year budget, but will need to be in subsequent years.
- Contingent liabilities -- these are liabilities that will materialise *only if a certain event occurs.* Examples include government guarantees and indemnities, uncalled capital, legal proceedings and disputes, and -- most recently in OECD Member countries -- environmental clean-ups.
- Trust moneys held by the government -- these are funds for which the state has a stewardship responsibility but generally no direct financial interest in the balances held. In some case the state finances the difference between the trust fund balances and the policy commitment.
- Accounting policies – all financial statements should spell out the basis upon which they are compiled so that readers can judge their significance.

When: Annually, within four months of the end of the period.

Why: The annual financial statements provide a key link back to the budget and for other accountability purposes.

Pre-election reports

What: Special pre-election fiscal and economic reports. These reports are essentially similar in content to the mid-year updates, and make clear the economic and fiscal situation prior to elections. To have credibility, they need to be produced via a process that is supported by major political interests. This may involve a designated politician (the finance or prime minister) certifying that she has communicated all government policy decisions that have a fiscal dimension to a designated senior civil servant or expert. Then the senior civil servant certifies that the finance ministry, or some other agency charged with that responsibility, has used its best professional judgement in estimating the fiscal position based on available information on government policy decisions.

When: Four weeks prior to elections

Why: These statements assist the quality of pre-election debate. They also act to limit the chances of governments' spending-up prior to elections and/or bolting-down after elections.

Long term projections

What: A statement of the forecast track for major budgetary aggregates over the long term. Should include as a minimum the social security or pension system, but can be supported by more comprehensive estimates of expected revenues and expenditures over a long period, say, forty years. Due to the high level of uncertainty in such outlooks, it can be useful to augment the base case with high and low scenarios.

When: Annually or whenever changes are proposed to the system of social security.

Why: Even under accrual reporting, there are many future receipts and payments that are not recognised. For instance, social security pension liabilities are not recognised – principally because they do not meet the reliability in measurement criteria associated with accounting requirements. However, because of the ageing of the population, social security payments constitute a major source of pressure leading to change in the structure of financing government. The financial calls placed on government by these schemes are a major influence on the degree of sustainability of any budgetary settings. If budgetary settings are not sustainable, then at some time, there needs to be a policy shift. Providing forward looking information, such as this, allows individuals to foresee such shifts and plan accordingly and informs public debate.

Accounting standards

What: Regardless of what accounting standards and policies the government uses, these should be clearly stated in the financial statements. Accrual accounting provides for the more timely recognition of economic events and disclosure of stocks as well as flows, thereby informing interested parties of the economic significance of a greater array of events.

Why: Accounting treatments rely on the application of accounting standards and policies. The quality of these standards and policies will influence the quality of the financial statements. The credibility of the financial statements can be influenced by the degree to which such standards and policies are determined by persons who do not have a direct interest in the numerical value shown in the financial statements. Externally determined accounting standards can be expected to have greater credibility than internally generated standards. However, in many cases, actual treatments rely on finer judgements than are prescribed in standards. In all cases, the standards and policies applied should be transparent.

The accounts associated with the accrual method of accounting (the operating statement, balance sheet and cash flow statement) provide a more comprehensive basis upon which to assess financial performance than cash statements only. Accruals mean that revenues and expenditures are recognised when the transaction or event takes places, not when the actual cash changes hands. Secondly, accruals require that a balance sheet be constructed -- with assets on one side and liabilities and equity on the other -- (annual depreciation showing up as an expense in the government's income statement). Recording the value of assets should encourage better management of them.

ISSUES FOR DISCUSSION

A. Do Delegates agree with the general nature of the above reports as a basis for establishing best practices in this area?

B. Do Delegates believe that such best practices should be in the form of Guidelines which are principally of information nature, or that they should be adopted as full OECD Recommendations which have a more formal character to them?

C. Are countries prepared to assist the Secretariat in the development of such guidelines/ recommendations?

PERFORMANCE MANAGEMENT AND FINANCIAL MANAGEMENT: HOW TO INTEGRATE THEM?

BACKGROUND

20. Performance management and financial management have tended to operate in separate spheres in many Member countries with little interaction between them. The paper surveys the issues associated with their integration. This report was prepared by Christopher Pollitt, Professor of Government, Brunel University United Kingdom and Visiting Professor, Public Management Centre, Katholieke Universiteit, Leuven, Belgium.

SUMMARY

21. There are dangers in speaking of "financial management" and "performance management" as though they were homogenous activities. In reality they are broad labels, each covering a wide range of decisions and activities made and carried out at different levels and for different purposes

22. It will be a theme of this paper that such differences are important for the question of integration. *The specific problems of integration depend, to a large extent, on which processes are being integrated, in respect of what kind of activity, and at what level.* The signs of success (or failure) for one process or at one level or one phase may not be the same as the signs for a different process or at a different level and phase. The literature (both practitioner and academic) on financial and performance management are full of allusions to important contextual factors. Five key factor are listed below:

Types of budget

23. Many expert commentators have argued that different *types* of budget encourage (and discourage) different types of behaviour, both among the budget-setters and the budget-implementers. It is easy to see that some types are more open to the inclusion of performance information than others. Each type of budget has strong and weak points.

24. Line item budgets (with separate appropriation lines for salaries, travel, office supplies, etc.) are easy for non-experts (including legislators) to use and they facilitate micro-control. However, line item formats make it hard to integrate any significant type of performance data other than simple compliance with input appropriations. It should be noted that the input/line item form of budgeting may be deeply entrenched -- even specified as a legislative requirement. To change it, therefore, may be no simple matter.

25. The introduction of global budgets (with single consolidated appropriations for all running costs) and concomitant increase in managerial flexibility has been a major theme of budget reforms in a number of OECD countries in recent years. The introduction of global budgets therefore removes a major obstacle to the integration of financial and performance management. In fact, the move to global budgets presupposes a move to a performance based accountability regime.

Types of accounting

26. At least three aspects of accountancy systems influence the possibility for integration with performance management. First, there is *the identity of the accounting entities*. This may be encapsulated in the question: are the entities which report on performance the same as those which account for finance? In the case of, for example, U.K. Executive Agencies, the answer is generally “yes”. The agency has a framework document specifying its performance targets and it is also an accounting entity with its own Accounting Officer (usually the chief executive) who presents the accounts and may be called before Parliamentary committees to give evidence about the agency’s financial position. In other cases, however, there may be a divergence -- for example, where an agency or unit may have been given considerable managerial autonomy but a treasury or ministry of finance still presents a unified set of accounts on behalf of the government or the state as a whole.

27. Second, there is the extent to which a performance management entity operates with incomplete costing data (all the costs are not budgeted for directly). The point here is straightforward. Performance information about an entity may be distorted if the reported performances are, in part, being achieved on some other entity’s budget. Thus, if an agency’s buildings or vehicles or legal services are supplied by some central agency with a separate budget (a ministry of public works, a government vehicle service, a central legal unit) then it becomes harder to assess certain aspects of its performance -- and impossible to conduct accurate price/quality analyses.

28. Third, there is the related question of *whether accounting is conducted in cash or accruals terms.* A number of OECD countries have moved or are moving from cash accounting to some version or other of accruals accounting. Accruals accounting records costs and revenues as they are incurred/earned whereas cash accounting registers them when payments are made or receipts received. Proponents of accruals accounting argue that it yields improved management information -- especially on costs and assets -- and that it facilitates a closer integration of financial and performance measures. For example, New Zealand’s experience of introducing accruals accounting suggests that it can certainly stimulate a sharper management of capital assets.

Types of programme

29. Certain types of programme lend themselves to performance measurement much more readily than others. For example, Bouckaert and Ulens distinguish between:

a) *Tangibles*: measurable, standardised activities providing recurrent products or services (e.g. building roads, issuing licenses)

b) *Non-tangible individually-tailored services*: more individually tailored services such as teaching or health care, where there are routine aspects but also a need to adjust the service to individual, personal needs and contexts. Here it is more difficult to capture the essence of the service in just a few key measures.

c) *Non-tangible ideal services*: less standardised, less routine services (e.g. co-ordination of other activities; provision of policy advice)

30. Both performance measures and the calculation of reliable unit costs are likely to become more difficult as one moves up the scale from type a) programmes to type c) programmes. It therefore seems obvious that, *ceteris paribus*, the integration of performance and financial measures is likely to be least difficult with tangible, standardised products and services. One might add that the Bouckaert and Ulens classification does not seem to take full account of a fourth -- and growing -- category of governmental activity, namely *regulation*. Measuring the performance of regulatory agencies poses special problems as does budgeting for regulatory agencies.

31. The type of programme also influences the scope for price/quality (or cost/quality) trade-offs. Tangibles such as the construction of stretches of roads or the issue of licenses or permits have clearly identifiable costs and equally clear outputs (the road gets built to schedule, or not). The product is fairly standardised, so quality measurement systems should not pose too great a challenge. Thus a price/quality schedule can be calculated and considered and targets based on that may be set at the same time as financial allocations are being made. With non-tangible personal services it is considerably more difficult, particularly because the lack of standardisation often leaves the quality side of the equation in shadow. Nevertheless, considerable progress has been made over the last two decades. “Ideal” and regulatory services are even more problematic -- taking policy advice as an example, while it is perfectly possible to establish performance targets in terms of timeliness and comprehensibility, that is not at all the same thing as the underlying *quality* of the advice. Attempts have been made -- notably in New Zealand -- but, however one judges their success, it remains the case that price/quality trades-off are easier to measure and to comprehend with tangible, standardised products.

Levels of decision-making

32. There are various ways of classifying the different levels, but for present purposes a five-fold classification is probably sufficient.

a) Agreeing the global totals for public expenditure. We may term this the level of *aggregate* expenditure *policymaking* (remembering the definition of the objectives of budgeting given in section 1.2 above).

b) Dividing the total between major sectors (defence, education, law and order, etc.). This is the level of *inter-sectoral allocation*.

c) Allocating resources to particular programmes within a sector (e.g. to nursery education, secondary education, universities, within the education budget). This might be referred to as *intra-sectoral policymaking*.

d) Allocating resources to particular activities or institutions within a particular programme (e.g. allocating proportionately more resources to university X than university Y, because X has a better research performance and/or because it has expanded its student numbers faster in subjects which the government regards as being of high priority). We could call this *programme priorities management.*

e) Allocating resources within a particular institution or activity (e.g. if a university decides to transfer resources from the academic salaries budget to the travel budget, or even whether to purchase services from outside sources rather than produce them in-house). This is *operational management*.

33. It should immediately be noted that real budgetary and financial processes are not necessarily arranged in this neat, clearly layered manner at all. In some jurisdictions there is currently no process by which overall global totals are agreed upon before sub-allocations take place. In many countries budgeting at different levels is more a continuing process of interaction and mutual adjustment than a hierarchical, logical sequence. In short, top-down and bottom-up elements have different weightings within different countries, and there is sometimes even considerable variation between different levels of government within single countries. For analytical purposes, however, the present paper will make use of these five levels.

34. Another point to bear in mind is that the line between *budget-making* (or *budget-setting*) and *budget-implementation* (or *budget-execution*) may be differently perceived by different "players" at different levels. Normally, for example, decision processes a) and b) are unmistakably budget-*making*, and the decisions, when taken, are sanctioned by the legislature and possess legal force. By contrast, from the point of view of a minister or top level civil servant in a ministry, decisions at levels d) and e) may appear as straightforward budget *execution*. However, to those directly involved (institutional leaders, divisional or departmental heads within agencies and service-providing institutions) levels d) and e) may be experienced as budget-*making* (available resources are allocated between competing demands, etc.).

35. As noted earlier, a feature of the public management reforms carried through by many countries since the late 1970s has been a decentralisation of authority for financial management, and the encouragement of greater cost-consciousness among staff at all levels. One strand in this development has been the tendency to abolish or relax the strict divisions between different budget lines, increasing the powers of transfer exercised by middle and lower level managers -- the ultimate stage being a "one-line" or block budget, where local managers can move resources between all budget lines. As the discretion available to middle and lower tier managers increases in this way their task takes on more of the character of budget-*making* as well as budget execution. Of course practice varies considerably between different countries and different types of public body in these respects. In some cases traditional line-item budgeting is still strongly in force, and transfer is tightly controlled from the centre.

36. Some general relationships may exist between the five different levels of decision-making and the integration of financial management with performance information. *The two "highest" levels* -- *aggregate expenditure policymaking and inter-sectoral allocation* -- *are probably the most difficult into which to introduce and integrate performance information*. A number of studies in a number of countries indicate that these are the levels at which political values and ideologies, plus macro-economic pressures, have their most direct and powerful influences, to some extent "crowding out" consideration of performance data concerning specific programmes or services.

37. At lower levels (c,d,e) a significant degree of integration between operational management and financial processes may be more obviously attractive to the key "players", and therefore more readily attained.

Timescales

38. Particular difficulties may arise where programmes have long timescales for achieving their effects, e.g. some environmental improvement programmes or basic research programmes or advanced military weapons development. To some extent the same problems arise where programmes are focused on "eternal goals", such as reducing crime or eliminating poverty -- variables which are unlikely to shift dramatically within the space of a few months (or not because of government action, anyway). In such circumstances to budget annually, or to set and re-set performance targets annually may not make a great deal of sense.

39. These programmes can be seen as an extreme case of a more general problem -- that quite a few of the activities of government cannot be optimally managed if their financing is rigorously divided into chunks of only a single financial year at a time. High spending in the last month of the financial year is merely the best known symptom of the dysfunctional effects of strict annuality. To ameliorate these perversities a number of countries have introduced some operational flexibilities at the end of each year (e.g. the Swedish provisions for carry forwards and borrowing up to 3 per cent on future allocations)

40. The following table presents a summary of the contexts in which integration would be more or less difficult to achieve. Most contexts will be neither as favourable as column one, nor as unfavourable as column two. Indeed, in practice, few government programmes possess all the characteristics in column one.

Key Variables for Integration	
Integration would be easier in a context where:	*Integration would be more difficult in a context where:*
Strategic target/objective setting is linked to resource allocation. Global or output-based budgeting is in place. Full cost activity accounting is in place. The programme in question consist of a set of tangible and measurable products or services. Integration is being attempted at the levels of programme priorities management and operational management. The impact of a programme can be seen soon after the services or products are delivered. The results (outcomes) can be attributed to the programme with high confidence (rather than there being reason to suspect that they were caused by other factors).	Historical incrementalism is the basis of resource planning and allocation. Line item budgeting is in place. The accounting entities do not match the units in which programme activities are carried out and performance is measured. The programme consists of non-standardised, non-tangible, "ideal" services. The effects of the programme can only be detected in the long term. Even when "results" are detected, attribution directly to the programme is uncertain.

ISSUES FOR DISCUSSION

A. What are the advantages and disadvantages of integrating performance management and financial management?

B. Is it only appropriate to seek such integration at lower levels (c,d,e in above)?

C. Delegates may wish to share what key obstacles have been identified for the integration of performance management and financial management in their national governments?

D. What is the appropriate role of the central budget office in this process?

MEASURING PUBLIC SECTOR PRODUCTIVITY

BACKGROUND AND SUMMARY

41. The past two decades have seen the introduction of significant public management reforms in Member countries. A key objective of many of these reforms has been to increase public sector efficiency (productivity).

42. Measuring productivity is generally performed by comparing the ratio of inputs to outputs. Fewer inputs producing the same outputs indicates productivity growth. The same inputs producing greater outputs indicates productivity growth. In the public sector, this has not been feasible. Due to the complex non-market nature of many government services, outputs have traditionally not been identified and measured.

43. As a result, "output" in the public sector is determined by simply summing all costs at current price values and then deflating them. There is a serious deficiency in this approach as there is an implicit assumption that there is no change in productivity. As one of the accompanying papers notes, consider a clerical process such as writing cheques. If this process is automated, so that the cheques are printed by computer rather than hand written, then fewer clerks will be employed. As a result, the volume of output would be recorded as having fallen. However, the same number of cheques are being written. No productivity growth is recognised.

44. There is an abundance of anecdotal evidence indicating that productivity in the public sector has grown as a result of the various public management reforms introduced. Such improvements have, however, not been officially recorded. The increased use of output-based budgeting and management systems in Member countries offers a basis to rectify this in the near term.

45. Improved measurement of public sector productivity will allow parliament, ministers and government officials to:

- Monitor the benefits of public management reforms;
- Monitor and evaluate the performance of individual ministries and agencies;
- Identify areas where future reforms are needed; and
- Contribute to the budget formulation process by establishing annual levels of expected efficiency gains.

46. The statistics community has also shown a strong interest in the improved measurement of public sector productivity, especially as a means to improve the accuracy of the national accounts (GDP estimates). In Europe, for example, there is a co-ordinated effort by the national statistics offices in this area.

47. In response to this “co-incidence of interest”, the OECD held an expert’s meeting earlier this year where public management officials and national statistical officials jointly met to discuss the possible next steps in this area. The major conclusions of the meeting were as follows:

- Identifying appropriate output indicators and measures is the key obstacle to measuring productivity in the public sector;
- At this stage, available information is not sufficient to facilitate uniform and comparative studies of public sector productivity in Member countries;
- There is a general commonality of interest and needs between public management officials and statistical officials in this area; and
- The OECD can make a significant contribution to the development of output indicators and measures to be used for both national accounts and public management purposes.

48. Specifically, the OECD is in a unique position to establish principles and examples for the identification of appropriate output indicators and measures. Such a general framework -- based on the experiences of Member countries with significant experience in this field -- would serve as a means to overcome the key obstacle for measuring public sector productivity and therefore accelerate the move to uniform and comparative studies in this area.

49. The case studies presented at the expert’s meeting are attached to the main document. The countries which submitted case studies were: Australia, Finland, Sweden, the Netherlands and the United Kingdom.

ISSUES FOR DISCUSSION

A. Delegates may wish to relate their national experiences in measuring general government sector productivity?

B. Are delegates in agreement with the conclusions reached at the expert’s meeting and do they share the view that such measurement has relevance to the budget process?

BUDGETING AND MANAGEMENT COUNTRY STUDIES
Proposed Framework

BACKGROUND

50. The Public Management Committee has decided that a major output from its activities will be the production of single country reviews of budgeting and management systems. This document outlines the proposed framework for undertaking these reviews.

SUMMARY

51. The standard framework for review attempts to identify strengths and weaknesses of the pre-existing system in place in reviewed countries. It does this by looking at five major aspects of a budgeting and management system -- strategy and co-ordination; management and control; accountability and transparency; the role of the legislature; and change management.

52. ***Strategy and Co-ordination.*** If there were no scarcity, there would be no resource allocation problem. The gain sought from co-ordinated action is that the scarce resources are allocated efficiently. This requires information to flow to allow the consideration of the various claims of those seeking resources.

53. There is a major difference between government and the private sector in securing scarce resources problem because government has the power to extract resources forcefully from others through the power to tax and appropriate property. For both reasons, the highest efficiency objective about the aggregate call on resources is important.

54. The lack of a hard budget constraint on the aggregate supply of resources can act to reduce incentives for co-ordinated action, and allow government instead to pursue tax increases to fund the pet projects of particular ministries and constituencies. There are at least two problems here – one being that the costs of tax funded programs are spread, whereas the benefits tend to be targeted and "captured" by a smaller group. The other problem is that particular politicians and others may perceive their reputation as depending on their ability to defend their portfolio from reductions in resources, making them much more likely to agree to increases in resources, than decreases. If each party to a decision believes that his or her interests are tied up in increasing resources, then in all probability that is what will happen.

55. The interplay of these two factors suggests that efficient co-ordination requires both a hard budget cap applying to aggregate spending, and the translation of that cap into subsidiary portfolio or sectoral caps. The roles of the minister of finance and the cabinet system reinforce such rules and provide an important point of countervailing influence to the individual pursuits of sectoral ministers. The main tool developed in recent years for the adoption of such caps has been the medium term expenditure framework. These frameworks take a variety of forms, and involve various degrees of commitment from the Executive and sometimes, the Legislative branches.

56. If the aggregate and sectoral caps are constrained, then what remains to be done in co-ordinating action? Unchanging caps would imply government that is unresponsive to changing circumstances, tastes, technology and information. Accordingly, within the highest level aggregate caps, resources need to be shifted to reflect these changes.

57. Reallocation is difficult because it creates battles for resources and perhaps, turf. But reallocation -- especially in times of limited fiscal resources -- is the way to give effect to policy and priority change. The main tool for achieving this is through the development and application of strategy and the main decision system for implementing strategy is through the budget and the related management systems.

58. Historically, many governments gave effect to the need to be strategic through announcements such as five-year plans. More recent thinking has accepted that the stop-start foundation to such plans was an unsuitable way to guide government through rapidly changing times. As with the private sector, the making of, communication and reappraisal of strategy has become a perennial, rather than intermittent activity. As Schick says: "Strategic alignment is a central element of ownership, for if a department's

objectives and policies are not congruent with those of the government, real damage may be done to the capacity for collective action".

59. The achievement of this strategic alignment may require a division of responsibilities between the central decision-makers and those in departments and agencies. The centre needs to manage its agenda carefully so that the scarce time of Ministers and the most senior bureaucrats can be targeted to where the value is greatest -- strategic prioritisation, rather than the management of operations. So the achievement of strategic objectives requires a mutually compatible management and control system.

60. ***Management and Control*** In an ideal world where everything is certain, where information costs nothing to collect or transmit, and where premiers, prime ministers and presidents have infinite computational capability and can direct their subordinates to do exactly what they require, then all decisions could be taken optimally at the centre. But these conditions do not apply in the real world.

61. All management systems require the distribution of decision-making rights to various players. In recent years, many of the reforms in public management have been concerned with changing the location of these decision rights. Although the overall trend has been for devolution and decentralisation, there have been some cases where recentralisation is being promoted. In the accepted language of public management, devolution generally involves shifting some functions from higher to lower levels of government, while decentralisation involves the increased scope of decision-making for resource use being passed down the line within the same administrative jurisdiction.

62. Both these trends have occurred to encourage increased administrative and managerial specialisation, allowing those at the centre to concentrate on making strategy and major policy, and those at lower levels to use local information to inform local resource allocation decisions.

63. The question of the degree of optimal decentralisation is complicated. The answer depends on many factors, such as the formal and informal systems for moving information, conveying strategy and bearing risk. Suffice to say that the development of new administrative institutions and technologies have generally supported increased decentralisation. There are at least five main reasons for decentralising.

64. First, it is difficult -- if not impossible -- to get all local information shared with central management. So rather than trying to generate systems that move all information into the centre, decision making powers can be decentralised to where relevant information is acquired, stored, accessed and processed. Second, decentralised decisions can be more timely. Centralised decision making relies on moving decision-relevant information from the local area into the centre, the deliberations of the central decision-makers and the transmission back from the centre. All this takes time, and reduces the degree of responsiveness. Third, if too many operational decisions go into the centre, they congest the deliberation time available to the top level decision makers, crowding-out their ability to reflect and decide on matters of higher strategic importance. Fourth, there is too much computational complexity for the reasonably small numbers of actors with authority at the centre to make optimal decisions. Finally, the right to make decisions can act as a motivating and innovating force. This idea of empowerment is relatively new to public management. The degree to which this occurs will relate at least to some degree to the risk sharing environment.

65. Taking a more overarching view, Stiglitz has argued that more decentralised decision-making -- done right -- is likely to be associated with lower variability in decision quality, fewer good projects being rejected and increased opportunities for experimentation and learning.

66. But accepting reasons to decentralise is one thing, designing a system of decentralised decision rights and monitoring systems in support of such decentralisation is quite another. In so doing, there are generally seen to be three major problems that need to be managed.

67. First, there is the problem of goal congruence -- the fact that the goals of the agent will not be identical to that of the principal.

68. Secondly, there are problems created through externalities -- the fact that the consequences stemming from an action or decision may affect others than those involved in making the decision.

69. Thirdly, there are problems associated with risk sharing -- the risk preferences and the available risk return choices may be different for each participant in a given system.

70. It becomes part of the task of the co-ordination, control and management system to address these problems consistent with the achievement of the efficiency goals identified previously. A highly decentralised system without measures to make clear priorities and enforce co-ordinated action where there are externalities could be expected to create many problems with employees pursuing their own interests and imposing costs on others without due regard to these costs.

71. ***Accountability and Transparency.*** An earlier section argued that there can be considerable gains from decentralisation of decision-making -- the passing of managerial discretion down the line. However, to constrain the exercise of discretion, decision-makers need to be made accountable for their actions. As the World Bank has pointed out, incentives for corrupt behaviour arise whenever public officials have wide discretion and little accountability. Accountability is the essential quid pro quo for managerial autonomy, and both are required to drive efficiency. At one level, accountability is about establishing pressure for performance, but more fundamentally it is also about the legal, democratic and appropriate use of public resources. Accountability is a necessary, but not sufficient, condition for managing corruption.

72. Accountability applies in different ways at different levels. Some aspects of accountability may be personal and be part of the management and control system. Other parts represent systemic accountability and, by their nature, refer to public accountability.

73. In recent years, consistent with the increased authority passed down the line, there has been a general shift in the way that the public sector has sought to achieve its goals. Like many performance management systems in the private sector, the public sector has used systems of cascading objectives whereby each part of the hierarchy gets clarity about what is expected of it from the part to which it is accountable. This has been especially useful where there has been an exchange type relationship of funding being provided in return for the production of certain goods and services. This form of performance contracting has been used within jurisdictions and between jurisdictions as well.

74. But accountability for the value caught up in public investment is not generally captured in contracts that deal with exchange and make cost-based estimates of the costs of production. This need is best served by general purpose financial statements. In fact, general purpose financial reporting standards were developed in the private sector to provide investors and lenders with information to help them assess the creditworthiness and prospects of firms, and eventually, the performance of those in charge of running them. In many ways, taxpayers and providers of capital to sovereigns have similar interests, although for taxpayers much of their risk exposure is difficult to manage.

75. Currently, there are many different ways that governments report their financial position to parliaments and citizens. In recent years, there has been a migration to the use of accrual based accounts.

Eight OECD countries have committed to the provision of whole of government accrual statements -- three of which are members of the G-7.

76. Whereas many of the instruments of accountability tend to focus on capturing transactions, events and performance via contracts, constant pressure for quality decision-making can be applied through having processes that are transparent and easily understood.

77. It may be that there are not generally the direct gains available to citizens to make it worthwhile for them to invest their time and effort in understanding and forming a judgement on most government based information. This suggests that while citizens may expose themselves to limited information only prior to making decisions, they delegate general information acquisition, analysis and evaluation functions to others. This “rational ignorance” may conspire with incentives on government agencies and political decision-makers to yield less than enough information about government flowing into the public domain.

78. There can be a number of incentives working on government officials in favour of secrecy. First, the gains from transparency are often spread generally rather than captured, which suggests that there will be a systematic underinvestment in transparency effort. At any time an official’s own cost benefit assessment may suggest that their time may be better spent doing something other than fulfilling requirements to be transparent. Secondly, controlling information can assist in controlling agendas. This may give rise to using information release opportunistically. Thirdly, openness can provide information about errors and failures of judgements. This is the classic reason for cover-ups. Fourthly, corrupt behaviour relies on secrecy.

79. Secrecy can act to undermine participation in the democratic process. Citizens rely mainly on “voice” mechanisms to influence public policy. Voice, in the absence of quality information, becomes little more than noise. The tendency for citizens to be rationally ignorant suggests that the costs for the public of acquiring, analysing and assessing information to provide viable voice in the democratic process needs to be lowered. One way of doing this is for government to commit credibly to openness and transparency. Public information institutions -- like the media, the Opposition, think tanks, rating agencies etc -- can then lower costs to the citizenry by doing much of the processing of information. This sets up a favourable dynamic of pressure on government to perform, because while all pieces of information may not be acted upon, there is always the chance that they will be.

80. Commitment to release and a presumption in favour of openness should lower the long term costs of government. As Stiglitz argues, “it is now generally recognised that better, and more timely, information results in better, more efficient resource allocations”.

81. Consistent with this, poor information can stymie the efficiency objectives of the management and control system resulting in a systematic misallocation of resources through a lack of (economic) competitive neutrality between suppliers in the government sector and those in the private sector. Biases for the supply of goods and services to government owned suppliers are likely to reduce innovation and lead to higher costs through time.

82. ***Role of the Legislature.*** The role of the legislature in the budgeting and management processes can be expected to vary greatly in line with constitutional, historical and other influences. Generally, however, the legislature is taking a more active role in the budget process in a number of Member countries and there are changes to the relationship in others.

83. The common emerging areas of change in the role of the legislature in many Member countries do not directly increase the power of the legislature vis-à-vis the executive. Rather, they are designed to

improve the quality of the discussion of the budget in the legislature. Four specific areas can be observed in this respect:

- the introduction of fiscal policy statements whereby the legislature discusses aggregate levels of government revenue, expenditure, deficit, and debt several months prior to the introduction of the budget itself. This acts to provide a double lock-in to the fiscal aggregates and constrain both executive and legislative demands;
- an increased role for the committees of the legislature in discussing the budget and a pronounced division of responsibility between budget committees and sectoral committees whereby the sectoral committees have primary responsibility for final allocation of appropriations within an overall total set for their sector. This accepts that the sources of information and preferences of the legislature can be accommodated and have value in an open consideration of budgetary measures, as long as the consideration is faced by a hard budget constraint;
- improved reporting to the legislature, especially in terms of better outcome and output information to replace the more traditional input information provided to the legislature. This accepts the logic of decentralised systems of management, but says that in passing over some of its decision rights, the legislature requires new forms of information; and
- greater resources for the legislature in discussing the budget, either by increasing the resources of the relevant committees or by establishing independent legislative secretariats to provide expert advice on the budget, or by providing increased funding to political parties in order for them to establish expertise in discussing the budget. This accepts that once a decision to engage members of the executive has been made, then the value increases with the quality of that engagement which at least in part will depend on the resources available to service it.

84. In the pursuit of its objectives, the legislature may engage its own agencies otherwise it will be totally dependent on the claims made by the executive. In engaging its own agencies, the legislature needs to be clear on what aspects of performance it is seeking judgement upon. Generally speaking the legislature is not well set up to be an effective owner of sizeable organisations. If it, for whatever reason, has become an owner of any organisation it will be incumbent on it to play the role of the owner and assert the owner's right to be reassured about the performance of management.

85. ***Change Management.*** The starting position of this framework is that many traditional approaches to public administration have not satisfactorily addressed the three efficiency objectives being sought. Change from command and control "rowing" systems to devolved "steering" models has been a megatrend among government budgeting and management systems over the past decade or so. This is not to say that all governments have all embarked on the journey with the same degree of fervour, but it is reasonable to say that all Member countries -- from different starting points and at different speeds -- have embraced some aspects of reform.

86. The appropriate reform strategy will depend on many local conditions, but there are aspects of change management that could be expected to assist in more successful transitions. Such change management could be expected to have most of the following features:

- strong sponsorship or leadership from political leaders;
- evidence of bipartisanship, which has the effect of increasing the credibility of the reform programme and getting the reforms to stick;
- an institutional capacity for managing implementation;

- coherence of action, which for instance would mean that the sorts of reforms that would apply in one area would be informed by the reforms in other areas so as to reinforce them;
- comprehensiveness, so that the reform approach would apply across the public sector and through all relevant aspects of public management; and
- incentives on actors within the system becoming aligned to systemic goals rather than other goals.

87. It is recognised that in many administrations it is difficult to put in place comprehensive and logically consistent frameworks across the whole of government. Notwithstanding, the first four points can be expected to be strong indicators of the likely staying power of the transition. But once implemented – even if with the big bang of comprehensiveness -- systems need to adapt so as to adjust to changing circumstances and behaviours. Many of these adaptations will result from responding opportunistically when events allow it. Considering how government learns and converts relevant learning into change may derive an indicator of this dynamic capability. Some core requirements proposed by one national authority include:

- Openness to experimentation and innovation (within bounds)
- Commitment to honest self-scrutiny
- Willingness to engage with other institutions and deal with criticism or tension
- Systematic means for testing and communicating new ideas.

ISSUES FOR DISCUSSION

A. Are Delegates comfortable with this framework? Do Delegates believe that its scope is approrpaite?

B. Do Delegates believe there to be any areas of omission?

C. Are there further aspects of budgeting and management that the reviews should focus on?

Attachment I

FUTURE WORK PROGRAMME
IN BUDGETING AND FINANCIAL MANAGEMENT

1. The work undertaken by the Public Management Service on budgeting and financial management makes a direct contribution to national fiscal policies by:

- facilitating information exchange between Member countries on the institutional arrangements and practices in the formulation and management of public expenditure;
- analysing the arrangements and practices applied in Member countries to assist in determining what works best and why; and
- seeking, through the collective nature of the international forum, to speed up the natural rate of innovation associated with moving to best practice budget and management practices.

2. It remains an ongoing challenge to focus Secretariat resources where they are most valued in assisting the achievement of the highest sustainable economic growth, standard of living and employment in Member countries. PUMA's current mandate expires at the end of 1999. The Public Management Committee is now managing the redevelopment of the mandate and the associated mission for PUMA.

3. The ongoing work in Budgeting and Financial Management is being proposed to cut across the three major goals of budgetary management:

- controlling aggregate expenditure;
- making resources flow to where they are most highly valued; and
- supporting changes in practices which yield greater technical efficiency.

4. The past two years have seen considerable downsizing in PUMA's budget. The outlook for the next year or two appears more promising, with greater stability being proposed for the OECD's budget in general. The redeveloped mandate for PUMA should provide a solid foundation from which to plan further activities in budgeting and financial management.

Current Activities:

Survey of Budgeting Institutions

5. Until last year, countries provided descriptions of recent budgetary developments through fact sheets. The fact sheets were replaced last year with a standard questionnaire that covered a limited number of subjects. The questionnaires were designed to deal with a number of the major budgetary management issues of the day. Many of the questions called for qualitative responses, making analysis quite difficult. Notwithstanding, the responses were distributed to all delegates and have provided the basis for a number

of Secretariat activities, including the making of presentations on numerous topics in numerous international fora during the year.

Fiscal transparency

6. For the current year, the Secretariat has revised the questionnaire format and narrowed its scope to budgetary presentation and transparency. This was done to sharpen the focus of the questionnaire to a particularly topical issue, reduce the time and effort countries required to fill in the questionnaire and also to make the results more conducive to support comparative analysis.

7. This resulted in two papers considered at this year's meeting. Over the coming year, it is proposed that the Secretariat:

- take further the analysis of the fiscal transparency results, looking to relate patterns of transparency to the three level efficiency objectives referred to above; and
- develop draft best practices in fiscal transparency based on this comparative analysis and other information.

Budgetary institutions database

8. The longer term challenge is to generate a database capturing the essential characteristics of budget making to assist analysis of what works and why in modern budgeting. To do this, the Secretariat proposes that it will develop such a database, which it will then seek to update on a regular basis.

9. Reports from the database will be provided at annual meetings of the SBO. The Secretariat will be corresponding further with countries on the design of this database.

Annual country examination

10. Last year saw the pilot examination of a single country budgeting and management system -- Sweden. This year, after discussion at the PUMA Committee meeting in October, it was agreed to have a broad focus for these reviews.

11. In parallel, a proposed framework document has been developed to assist the conducting of these reviews. This proposed framework supplements the processes of review covered in the earlier PUMA Committee document.

12. It is proposed to conduct a further country based review for consideration at the 2000 meeting of SBO.

Effective practices for reallocating resources

13. Over the next year, a major focus of the work programme involves examining issues associated with budgetary management to achieve allocative and productive efficiency goals.

14. As indicated above, one of the main aims of a well performing budget system is to see resources flow to where they are most valued and away from where they are less valued. However, there can be a number of obstacles to achieving this. This activity will assess a number of different approaches being

adopted to reallocate resources between priority areas to see which approaches appear to be succeeding without resulting in undue aggregate expenditure growth. This will require separating out the allocative goals and seeing whether these have been achieved. One difficulty in this analysis may be the capturing of time consistent data at a sufficiently disaggregated level.

Measuring public sector productivity

15. There are two outputs planned in this area during the upcoming year. First, PUMA will present the current debate about aspects of the applicability and usefulness of the concept of productivity when applied to the general government sector and identify arguments for and against the applicability of such measurement at the micro and macro levels. Secondly, PUMA will aim to assist the migration to the use of the output indicator method and to output based budgeting through providing guidance on output definition, contracting and measurement for the general government sector. The Secretariat will document the emerging ways being developed by countries to capture outputs, output classes or groups and output based performance, including quality. These products should assist countries in seeking to move to a stronger output focus in budgeting and also strengthen the basis for comparative analysis.

The use of agencies

16. Many countries have seen or are contemplating major changes in the way they organise general government sector activities – sometimes referred to as "the machinery of government". One particular trend is to make greater use of agencies in delivering services. In some cases "agencies" have been made managerially separate -- but legally indistinguishable -- from traditional departments, while in other cases, they have also been legally separate. This work will examine the uses and governance of agencies and attempt to draw lessons of what agency forms solve what sorts of budgeting and management problems. This should assist countries in forming judgements about the circumstances in which particular sorts of agencies may dominate as an organisational form, and whether there are other organisational or contracting forms that would achieve public purposes better.

The linkage between public management and budgeting reform and economic performance

17. The efficiency objectives for public budgeting are subsidiary to the overarching goals of efficient resource allocation for the economy as a whole. Last year, PUMA published *Public management reform and economic and social development*, which provided a survey of many of the issues and arguments concerning the linkage between reform and development.

18. The challenge is to take this further and investigate directly the mechanisms that lead to public management reforms influencing the real economy and estimate the size of these effects. The analysis is complicated by many factors. To manage these risks, the initial objective will be to develop an accepted project plan and analytical framework to conduct the analysis and submit this to widespread review.

Conclusion

19. The OECD's efforts in public management are undergoing a period of considerable scrutiny in the context of developing a future mandate. The projects outlined above fit well into the OECD's overarching goal of assisting Member countries to achieve the highest sustainable economic growth, standard of living and employment. At current resource levels, the above work programme will involve PUMA's budgeting and management staff until the end of the year 2000.