

**Public Governance and Territorial  
Development Directorate**

**RECOMMENDATION OF THE COUNCIL  
ON BUDGETARY GOVERNANCE**







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**18 FEBRUARY 2015**

**PUBLIC GOVERNANCE  
& TERRITORIAL DEVELOPMENT DIRECTORATE**



## Introductory note

The budget is a central policy document of government, showing how annual and multi-annual objectives will be prioritised and achieved. Alongside other instruments of government policy – such as laws, regulation and joint action with other actors in society – the budget aims to turn plans and aspirations into reality. More than this, the budget is a contract between citizens and state, showing how resources are raised and allocated for the delivery of public services. The experience of recent years has underlined how good budgeting is supported by, and in turn supports, the various pillars of modern public governance: transparency, integrity, openness, participation, accountability and a strategic approach to planning and achieving national objectives. Budgeting is thus an essential keystone in the architecture of trust between states and their citizens.

Against this background, the objective of this Recommendation is to draw together the lessons of a decade and more of work by the OECD Working Party of Senior Budget Officials (SBO) and its associated Networks, along with the contributions and insights from Public Governance Committee and other areas of the OECD, as well as those of the international budgeting community more generally. The Recommendation provides a concise overview of good practices across the full spectrum of budget activity, specifying in particular **ten principles** of good budgetary governance, which give clear guidance for designing, implementing and improving budget systems to meet the challenges of the future. The overall intention is to provide a useful reference tool for policy-makers and practitioners around the world, and help ensure that public resources are planned, managed and used effectively to make a positive impact on citizens' lives.

The OECD has developed, and is developing, more detailed principles and recommendations for further guidance on specific elements of the overall budgeting framework.

*For further information, please visit:*

<http://www.oecd.org/governance/budgeting/>



## The **ten principles** of good budgetary governance *at a glance*

- 1. Manage budgets within clear, credible and predictable limits for fiscal policy**
- 2. Closely align budgets with the medium-term strategic priorities of government**
- 3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner**
- 4. Ensure that budget documents and data are open, transparent and accessible**
- 5. Provide for an inclusive, participative and realistic debate on budgetary choices**
- 6. Present a comprehensive, accurate and reliable account of the public finances**
- 7. Actively plan, manage and monitor budget execution**
- 8. Ensure that performance, evaluation & value for money are integral to the budget process**
- 9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks**
- 10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit**

# Recommendation of the Council on Budgetary Governance

18 February 2015

## THE COUNCIL,

**HAVING REGARD** to Article 5 b) of the Convention on the Organisation for Economic Co-operation and Development of 14 December 1960;

**HAVING REGARD** to the Recommendation of the Council on Principles for Public Governance of Public-Private Partnerships [C(2012)86]; the Recommendation of the Council on Regulatory Policy and Governance [C(2012)37]; the Recommendation of the Council on Effective Public Investment across Levels of Government [C(2014)32]; the Recommendation of the Council on the Governance of Critical Risks [C/MIN(2014)8/FINAL]; the Recommendation of the Council on Principles for Independent Fiscal Institutions [C(2014)17]; the Recommendation of the Council on Digital Government Strategies [C(2014)88] and the Recommendation of the Council on Public Procurement [C(2015)2];

**HAVING REGARD** to the Agenda on “Trust in Government: Evidence, Policies and Decision-making” welcomed by the 2013 Ministerial Council Meeting [C/MIN(2013)4/FINAL, Annex III];

**RECALLING** in particular the commitment of the Ministerial Council on 30 May 2013 to rebuilding trust in government, promoting open government, and ensuring transparency in policy making [C/MIN(2013)16/FINAL], and the Statement by the Ministerial Council on 7 May 2014 affirming that sound and appropriate macro-economic management including responsible fiscal policies and further structural reforms are all essential for achieving robust, resilient and inclusive growth, taking into account rising inequality [C/MIN(2014)15/FINAL];

**NOTING** that the budget is a central policy document of government, showing how it will prioritise and resource the achievement of its annual and multi-annual objectives; and that, as a primary instrument for implementing fiscal policy, the budget thereby has a significant influence upon the management of the economy as a whole;

**RECOGNISING** that budget transparency is a key element in underpinning the overall agenda of transparency, accountability and trust in government, and that the OECD has played a leading role in the international community in promoting budget transparency including through the Best Practices for Budget Transparency [PUMA/SBO(2000)6/FINAL], which this Recommendation embodies and updates;

**RECOGNISING** that the national parliament has a fundamental role in authorising budget decisions and in holding government to account, and that as well as having access to budget documents and data, parliament and citizens should be able to engage with and influence the discussion about budgetary policy options, according to their democratic mandate, competencies and perspectives;

**RECOGNISING** that budgetary governance is an important pillar of the overall framework of public governance, and that updated guidance on budgetary governance should accordingly promote coherence with other key elements of the public governance framework;

**TAKING ACCOUNT** of the extensive body of analysis that has been conducted under the aegis of the OECD and other national bodies and international organisations on matters relating to budgetary governance, and in particular upon the analytical insights and researches arising from global economic and financial crisis that has prevailed over the past number of years across many Members;

**RECOGNISING** that national practices on budgeting vary widely across Members in light of distinct legal, constitutional, institutional and cultural practices, and that it is appropriate for countries to determine and manage their national frameworks in light of these country-specific circumstances, while taking due cognisance of the higher-level principles and guidelines regarding budgetary governance set forth in the present Recommendation;

**CONSIDERING** that budgeting is not simply the preserve of central governments, but that it is a process that encompasses all levels of government, where different mandates and levels of autonomy apply in different countries; that budget systems and procedures should be coordinated, coherent and consistent across levels of government in the interests of facilitating a comprehensive national overview of the public finances and promoting an informed discussion of the implications for budgetary management, in line with national legal and institutional frameworks, and that this Recommendation is accordingly relevant to all levels of government;

**HAVING REGARD** to the background document on the principles embodied in the present Recommendation approved by the Public Governance Committee at its 13-14 November 2014 meeting [GOV/PGC(2014)17];

**On the proposal of the Public Governance Committee:**

**I. AGREES** that, for the purpose of the present Recommendation, the following definitions are used:

- “**budgetary governance**” refers to the processes, laws, structures and institutions in place for ensuring that the budgeting system meets its objectives in an effective, sustainable and enduring manner;

- “**central budget authority**” refers to the ministry, institution or department of the executive (or combination of such bodies) that is or are responsible for the preparation of the annual public budget and its associated multi-annual processes.

- “**sound fiscal policy**” is one which avoids the build-up of large, unsustainable debts, and which uses favourable economic times to build up resilience and buffers against more difficult times, so that the needs of citizens and stakeholders can be addressed in an effective and enduring manner.

- “**top-down budgeting**” refers to the practice whereby the fiscal targets are determined from the outset of the budgetary process, with annual and multi-annual budgetary policies and priorities subsequently determined in conformity with these overall levels.

**II. RECOMMENDS** that Members and non-Members having adhered to the Recommendation (hereafter the “Adherents”) develop and implement budgetary governance frameworks in which Adherents should:

## 1. Manage budgets within clear, credible and predictable limits for fiscal policy, through:

- a) having procedures in place to support governments in effecting counter-cyclical or cyclically neutral policies, and in using resource endowments prudently;
- b) committing to pursue a sound and sustainable fiscal policy;
- c) considering whether the credibility of such a commitment can be enhanced through *(i)* clear and verifiable fiscal rules or policy objectives which make it easier for people to understand and to anticipate the government's fiscal policy course throughout the economic cycle, and *(ii)* other institutional mechanisms (see [recommendation 10](#) below) to provide an independent perspective in this regard;
- d) applying top-down budgetary management, within these clear fiscal policy objectives, to align policies with resources for each year of a medium-term fiscal horizon; noting that in this context, Adherents should adopt overall budget targets for each year which ensure that all elements of revenue, expenditure and broader economic policy are consistent and are managed in line with the available resources.

## 2. Closely align budgets with the medium-term strategic priorities of government, through:

- a) developing a stronger medium-term dimension in the budgeting process, beyond the traditional annual cycle;
- b) organising and structuring the budget allocations in a way that corresponds readily with national objectives;
- c) recognising the potential usefulness of a medium-term expenditure framework (MTEF) in setting a basis for the annual budget, in an effective manner which *(i)* has real force in setting boundaries for the main categories of expenditure for each year of the medium-term horizon; *(ii)* is fully aligned with the top-down budgetary constraints agreed by government; *(iii)* is grounded upon realistic forecasts for baseline expenditure (i.e. using existing policies), including a clear outline of key assumptions used; *(iv)* shows the correspondence with expenditure objectives and deliverables from national strategic plans; and *(v)* includes sufficient institutional incentives and flexibility to ensure that expenditure boundaries are respected
- d) nurturing a close working relationship between the Central Budget Authority (CBA) and the other institutions at the centre of government (e.g. prime minister's office, cabinet office or planning ministry), given the inter-dependencies between the budget process and the achievement of government-wide policies;
- e) considering how to devise and implement regular processes for reviewing existing expenditure policies, including tax expenditures (see [recommendation 8](#) below), in a manner that helps budgetary expectations to be set in line with government-wide developments.

### 3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner, through:

- a) the grounding of capital investment plans, which by their nature have an impact beyond the annual budget, in objective appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities;
- b) the prudent assessment of *(i)* the costs and benefits of such investments; *(ii)* affordability for users over the long term, including in light of recurrent costs; *(iii)* relative priority among various projects; and *(iv)* overall value for money;
- c) the evaluation of investment decisions independently of the specific financing mechanism, i.e. whether through traditional capital procurement or a private financing model such as public-private partnership (PPP);
- d) the development and implementation of a national framework for supporting public investment, which should address a range of factors including: *(i)* adequate institutional capacity to appraise, procure and manage large capital projects; *(ii)* a stable legal, administrative and regulatory framework; *(iii)* coordination of investment plans among national and sub-national levels of government; *(iv)* integration of capital budgeting within the overall medium-term fiscal plan of the government.

### 4. Ensure that budget documents and data are open, transparent and accessible, through:

- a) the availability of clear, factual budget reports which should inform the key stages of policy formulation, consideration and debate, as well as implementation and review;
- b) the presentation of budgetary information in comparable format before the final budget is adopted, providing enough time for effective discussion and debate on policy choices (e.g. a draft budget or a pre-budget report), during the implementation phase (e.g. a mid-year budget report) and after the end of the budget year (e.g. an end-year report) to promote effective decision making, accountability and oversight;
- c) the publication of all budget reports fully, promptly and routinely, and in a way that is accessible to citizens, civil society organisations and other stakeholders;
- d) the clear presentation and explanation of the impact of budget measures, whether to do with tax or expenditure, noting that a “citizen’s budget” or budget summary, in a standard and user-friendly format, is one way of achieving this objective;
- e) the design and use of budget data to facilitate and support other important government objectives such as open government, integrity, programme evaluation and policy coordination across national and sub-national levels of government.

**5. Provide for an inclusive, participative and realistic debate on budgetary choices, by:**

- a) offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both ex ante and ex post as appropriate;
- b) facilitating the engagement of parliaments, citizens and civil society organisations in a realistic debate about key priorities, trade-offs, opportunity costs and value for money;
- c) providing clarity about the relative costs and benefits of the wide range of public expenditure programmes and tax expenditures;
- d) ensuring that all major decisions in these areas are handled within the context of the budget process.

**6. Present a comprehensive, accurate and reliable account of the public finances, through:**

- a) accounting comprehensively and correctly in the budget document for all expenditures and revenues of the national government, with no figures omitted or hidden (although limited restrictions may apply for certain national security or other legitimate purposes), and with laws, rules or declarations that ensure budget sincerity and constrain the use of “off-budget” fiscal mechanisms;
- b) presenting a full national overview of the public finances – encompassing central and sub-national levels of government, and a perspective on the whole public sector – as an essential context for a debate on budgetary choices;
- c) accounting in a manner that shows the full financial costs and benefits of budget decisions, including the impact upon financial assets and liabilities; noting that *(i)* accruals budgeting and reporting, which correspond broadly with private sector accounting norms, routinely show these costs and benefits; *(ii)* where traditional cash budgeting is used, supplementary information is needed; *(iii)* where accruals methodology is used, the cash statement should also be used to monitor and manage the funding of government operations from year to year;
- d) including and explaining public programmes that are funded through non-traditional means – e.g. PPPs – in the context of the budget documentation, even where (for accounting reasons) they may not directly affect the public finances within the time frame of the budget document.

## 7. Actively plan, manage and monitor the execution of the budget, through:

- a) the full and faithful implementation by public bodies of the budget allocations, once authorised by parliament, with oversight throughout the year by the CBA and line ministries as appropriate;
- b) the prudent profiling, control and monitoring of cash disbursements, and clear regulation of the roles, responsibilities and authorisations of each institution and accountable person;
- c) the use of a single, centrally-controlled treasury fund for all public revenues and expenditure as an effective mechanism for exercising such regulation and control, with the use of special-purpose funds, and ear-marking of revenues for particular purposes, kept to a minimum;
- d) allowing some limited flexibility, within the scope of parliamentary authorisations, for ministries and agencies to reallocate funds throughout the year in the interests of effective management and value-for-money, consistent with the broad purpose of the allocation;
- e) streamlining of very detailed line items, or devolved authorisation for managing reallocations among line items (virement), in the interests of facilitating such flexibility; noting that more significant reallocations, e.g. involving large sums or new purposes, should require new parliamentary authorisation;
- f) the preparation and scrutiny of budget execution reports, including in-year and audited year-end reports, which are fundamental to accountability and which, if well-planned and -designed, can yield useful messages on performance and value-for-money to inform future budget allocations (see also [recommendation 8](#) below).

## 8. Ensure that performance, evaluation and value for money are integral to the budget process, in particular through:

- a) helping parliament and citizens to understand not just what is being spent, but what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency;
- b) routinely presenting performance information in a way which informs, and provides useful context for, the financial allocations in the budget report; noting that such information should clarify, and not obscure or impede, accountability and oversight;
- c) using performance information, therefore, which is *(i)* limited to a small number of relevant indicators for each policy programme or area; *(ii)* clear and easily understood; *(iii)* allows for tracking of results against targets and for comparison with international and other benchmarks; *(iv)* makes clear the link with government-wide strategic objectives;
- d) evaluating and reviewing expenditure programmes (including associated staffing resources as well as tax expenditures) in a manner that is objective, routine and regular, to inform resource allocation and re-prioritisation both within line ministries and across government as a whole;
- e) ensuring the availability of high-quality (i.e. relevant, consistent, comprehensive and comparable) performance and evaluation information to facilitate an evidence-based review;
- f) conducting routine and open ex ante evaluations of all substantive new policy proposals to assess coherence with national priorities, clarity of objectives, and anticipated costs and benefits;
- g) taking stock, periodically, of overall expenditure (including tax expenditure) and reassessing its alignment with fiscal objectives and national priorities, taking account of the results of evaluations; noting that for such a comprehensive review to be effective, it must be responsive to the practical needs of government as a whole (see also [recommendation 2](#) above).

**9. Identify, assess and manage prudently longer-term sustainability and other fiscal risks,** through:

- a) applying mechanisms to promote the resilience of budgetary plans and to mitigate the potential impact of fiscal risks, and thereby promoting a stable development of public finances;
- b) clearly identifying, classifying by type, explaining and, as far as possible, quantifying fiscal risks, including contingent liabilities, so as to inform consideration and debate about the appropriate fiscal policy course adopted in the budget;
- c) making explicit the mechanisms for managing these risks and reporting in the context of the annual budget;
- d) publishing a report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion on this subject, with the presentation and consideration of its policy messages – both near-term and longer-term – in the budgetary context.

**10. Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit,** and in particular through:

- a) investing continually in the skills and capacity of staff to perform their roles effectively – whether in the CBA, line ministries or other institutions – taking into account national and international experiences, practices and standards;
- b) considering how the credibility of national budgeting – including the professional objectivity of economic forecasting, adherence to fiscal rules, longer-term sustainability and handling of fiscal risks – may also be supported through independent fiscal institutions or other structured, institutional processes for allowing impartial scrutiny of, and input to, government budgeting;
- c) acknowledging and facilitating the role of independent internal audit as an essential safeguard for the quality and integrity of budget processes and financial management within all ministries and public agencies;
- d) supporting the supreme audit institution (SAI) in its role of dealing authoritatively with all aspects of financial accountability, including through the publication of its audit reports in a manner that is timely and relevant for the budgetary cycle;
- e) promoting the role of both the internal and external control systems in auditing the cost-effectiveness of individual programmes and in assessing the quality of performance accountability and governance frameworks more generally (see also [recommendation 8](#) above).

- III. INVITES** the Secretary-General to disseminate this Recommendation.
- IV. INVITES** Adherents to disseminate this Recommendation at all levels of government.
- V. INVITES** non-Adherents to take account of and adhere to this Recommendation.
- VI. INVITES** relevant international organisations to take account of this Recommendation and to continue to collaborate with the OECD in maintaining coherence and consistency in the advice and guidance that is disseminated to public authorities on matters of budgetary governance.
- VII. INSTRUCTS** the Public Governance Committee to monitor the implementation of this Recommendation and to report thereon to the Council no later than three years following its adoption and regularly thereafter, notably through the Working Party of Senior Budget Officials.

### Further reading and resources

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