

Programme budgeting in OECD countries

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Programme classification

Definition: a classification of line items (for the purpose of authorization), based on output areas.

Guidelines:

- not more than 5 to 10 programmes per ministry;
- should follow organisational structure.

Advantages: more supportive of all functions of the budget than a classification based on inputs:

- the allocative (priority setting function) of the budget
- the managerial function of the budget
- the macro-economic function of the budget

Conditions for the relaxation of input controls:

- Budgets should be well explained, preferably in p x q terms
- Strict rules of budget discipline should be in place

Single most important message to line ministries:

a programme classification is a contract between the ministry of finance and the line ministries in which discretion over inputs is exchanged for the compliance with rules of budgetary discipline

Administrative expenditures need special attention

- **core ministries**
- **support functions: finance, human resources, communication and information, legal services, internal audit and operational services;**
- **administrative execution**

Programme classification of a line ministry

Line items	Ministry	2007 (provisional results)	2008 (budget year)	2009	2010
	Programme budget				
1	Programme 1				
2	Programme 2				
3	etc...				
	Total programmatic expenditure				
	Administrative budget				
6	Core ministry				
7	Administrative agency 1				
8	Administrative agency 2				
	Total administrative expenditure				
	Total				

Multi-annual framework and multi-annual estimates

- Frameworks have prescriptive ceiling
- Estimates are descriptive forecasts

Framework decision is based on three datasets:

- 1. Fiscal framework of previous year and macro-economic targets in the medium term**
- 2. Updated multi-annual estimates**
- 3. Requests for new initiatives**

Rules of budgetary discipline:

- Every minister is responsible for compliance with his/her own ceiling;
- Every minister is obliged to compensate overspending on any line item estimate that leads to overspending on the ministerial ceiling;
- Carry-over of appropriations is only possible with approval of Minister of Finance;
- Reallocation between ministerial ceilings can only be decided by Cabinet with the approval of the Minister of Finance in the budget process;
- The prime minister is responsible for the compliance with the overall ceiling.

The use of performance information in programme budgeting

- Budget linked performance targets;
- Performance evaluation as a tool of budgetary decision-making;
- Spending reviews as as tool of budgetary decision-making

Two models

1. Purchaser-provider model

- **New Zealand, Australia**

2. Targets-instruments model

- **Government Performance and Results Act (GPRA, USA)**
- **Loi Organique relative aux Lois des Finances (LOLF, France)**
- **Public Services Agreements (UK)**

Three conceptual problems

1. How do targets for outputs relate to the “q” factor that determines budgetary and multi-annual estimates?
2. How do targets for outcomes relate to budgetary and multi-annual estimates?
3. What happens if targets are not achieved?

Performance evaluation as a tool of sectoral policy development

- **Self evaluation by ministries**
- **External evaluation: universities, research institutes, advisory councils, think tanks, political parties, lobby groups**

Guideline:

A decree with basic rules for policy evaluation in line ministries, establishing standards for research procedures, publication and independence of contracted research institutions can contribute to the quality of evaluation.

Spending reviews

Canada, Australia, UK, the Netherlands, UK, US

Differences with policy evaluation:

1. Look at consequences of alternative funding levels;
2. Minister of Finance holds ultimate responsibility;
3. Follow up decided in the budget process.

Procedural characteristics:

- Terms of reference decided by cabinet or Minister of Finance;
- Responsibility for reviews not by line ministry;
- Participation of external experts.

Budget documentation

Customary components:

- **Outlines of the budget;**
- **Fiscal framework and compliance check of budgetary and multi-annual estimates with framework;**
- **horizontal explanation of multi-annual estimates;**
- **vertical explanation of multi-annual estimates;**

Outlines of the budget

- National and international economic environment, macro-economic assumptions;
- Fiscal rules, medium term deficit target, fiscal sustainability check;
- Spending ceilings for subsectors (subnational government, social security, central government);
- Major new spending and revenue initiatives;

Fiscal framework and compliance check

	2008 = budget year	2009 = first out-year	2010 = second out- year
Ministry I			
Ministry II			
etc...			
Parliament			
Court of Accounts			
Total net expenditure of central government			
Total central government ceiling			
Social security fund A			
Social security fund B			
Total net expenditure for social security			
Total social security ceiling			
Total net expenditure under the ceiling			
Total ceiling			

Adjustment of the fiscal framework in budget 2008

	Budget 2007		Budget 2008		
	2008	2009	2008	2009	2010
Ministry I					
Ministry II					
etc...					
Parliament					
Court of Accounts					
Total net expenditures under central government ceiling					
Social security fund A					
Social security fund B					
Total net expenditures under social security ceiling					
Total net expenditures under the ceilings					

Horizontal explanation of budgetary and multi-annual estimates

- treats development of estimates in the budget of a *given year*
- for instance in budget 2008: 2008 → 2009 → 2010
- p x q explanation (is not the same as planned outputs or outcomes)

Vertical explanation of programme estimates in budget 2008

Programme 1	2007	2008 budget year	2009	2010
Estimate budget 2007				
Setbacks and windfalls				
Policy measure A				
Policy measure B				
Policy measure C				
Contribution from contingency fund				
Estimate budget 2008				

Conclusions

1. Programme classification

- **Reclassification according to programmes (output areas) requires p x q explanations and budgetary discipline;**
- **Programme classification should follow organisational structure; not more than 5 to 10 programmes per ministry;**
- **Administrative expenditures should be kept apart;**

Conclusions

2. Multi-annual framework and multi-annual estimates

- Framework is prescriptive and should be established (or confirmed) from year to year at the beginning of budget preparation and strictly enforced once decided;
- Line ministries should be allowed to submit requests before framework is decided;
- Estimates are descriptive and should be fitted into the framework by application of rules of budgetary discipline.

Conclusions

3. The use of performance information

- A decree with basic rules for performance evaluation in line ministries can contribute to quality of evaluation;
- A procedure for annual or biannual spending review under the control of the Minister of Finance or the Cabinet can support the periodical revision and extension of the fiscal framework

Conclusions

4. The budget documentation

The budget documentation should comprise:

- outlines of the budget: economic outlook, fiscal rules, sustainability check, spending ceilings for subsectors, major new spending and revenue initiatives
- fiscal framework for central government and social security and compliance check of multi-annual estimates;
- explanation of changes in the framework since the previous year; use of spending reviews;
- horizontal explanation of multi-annual estimates
- vertical explanation of multi-annual estimates.