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PUBLIC GOVERNANCE COMMITTEE**

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Working Party of Senior Budget Officials

**REPORT ON BUDGETING AND PUBLIC EXPENDITURE: CURRENT AND FUTURE ACTIVITIES:
2004 to 2006**

25th Annual Meeting of Senior Budget Officials

**Madrid, Spain
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**REPORT ON BUDGETING AND PUBLIC EXPENDITURE: CURRENT AND FUTURE
ACTIVITIES: 2004 TO 2006**

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PART I CURRENT ACTIVITIES

Network on Performance and Results

1. The 2003 SBO meeting in Rome identified “Performance” as a medium term priority. The network on performance and results was re-launched in 2004 after a pause of several years when activities in this area were handled by a series of *ad hoc* meetings. The network will foster greater stability and coherence in this area of work.
2. The first meeting of this group was held on 1-2 April 2004 at OECD Headquarters in Paris and was chaired by Alex Matheson of the Secretariat. The meeting was attended by 50 delegates representing 21 countries.
3. This meeting examined the different approaches taken by OECD member countries to the development and use of performance information in the budget process. Sessions were held on the challenges of measuring performance, assessing outcomes, the use of performance targets, incentives for improving performance, assuring the quality of performance information, and the use of performance information by parliamentarians. Mr. John Mayne, formerly of the Office of the Auditor-General of Canada, acted as the *rapporteur* of the meeting. A major report on developments in performance budgeting and management, with a strongly practical emphasis is planned for 2005. A survey to feed into this report will be sent to all members shortly.
4. In conjunction with the meeting of the network, an experts meeting was held on 31 March 2004 on the subject of directly linking appropriations to outputs. This approach has been most commonly applied in education and health. This meeting forms part of a larger report on this subject. This activity is financed by voluntary contributions from Norway and Denmark.

Network on Financial Management

5. The 4th annual meeting of the SBO network on financial management - the OECD Public Sector Accruals Symposium – was held at OECD Headquarters in Paris on 9-10 February. The meeting was chaired by Mr. Ian McPhee, Deputy Secretary, Department of Finance and Administration, Australia. One hundred ten delegates attended the meeting.
6. As in previous years, a large part of the meeting was devoted to the accrual treatment of specific transactions, assets and liabilities that are unique to the public sector. These included non-exchange revenue (taxes), social policy obligations, military equipment, heritage assets, credit programmes (loans and guarantees), provisions and commitments. The IFAC Public Sector Committee presented their work on the first two items as well as providing a general update on their work. The various facets of valuation in a public sector context were discussed, including a presentation by the International Valuation Standards Committee. The International Accounting Standards Board provided an update on developments with private sector GAAP and the potential implications for public sector accounting standards. The meeting concluded with a discussion on how governments can get the most from their investment in adopting accruals. The report is being presented at this SBO meeting.
7. The International Task Force on the Harmonisation of Public Accounts met in conjunction with the meeting of the Network on 11 February and a Working Group met on 6-7 February. The Task Force meeting was chaired by Ms. Lucie Laliberte, Senior Advisor, Statistics Department, International Monetary Fund and the Working Group meeting was chaired by Mr. Ian Mackintosh, Regional Financial

Management Advisor, World Bank and former Chairman of the IFAC Public Sector Committee. The OECD provides the Secretariat for this work.

8. The objective of these meetings was threefold. First, to identify the differences that exists between the different standards in the treatment of specific transactions, assets and liabilities. Second, to identify areas where harmonization between the different standards is considered desirable, and to take action to affect the necessary amendments. Third, to identify areas where harmonization between the different standards is not considered feasible/desirable, and to assess the implications of remaining differences between the standards.

9. The creation of the Task Force was *inter alia* in response to a request from last year's meeting of the SBO Network on Financial Management to study the feasibility of harmonization between the different international government accounting and statistical standards, notably the GAAP standards developed by the International Accounting Standards Board, the International Public Sector Accounting Standards (IPSAS) developed by the Public Sector Committee of the International Federation of Accountants (IFAC), the Government Finance Statistics Standards (GFS) and the European System of Accounts (ESA). The Task Force brings together the relevant organizations and interested parties to carry this work forward.

10. Close co-operation with the OECD Statistics Directorate is maintained on the above activity.

Budgetary Institutions and Reallocation

11. A half-day meeting was held at OECD Headquarters in Paris on 11 February to present the draft final report on reallocation: the role of budgetary institutions. Over 35 delegates attended the meeting, largely reflecting the membership of the expert group that had been guiding this work. The meeting was chaired by Mr. Mike Joyce, Assistant Secretary, Treasury Board Secretariat, Canada. In addition to the presentation of the report by the Secretariat, there were presentations by officials from Canada and the Netherlands and a keynote address by Professor Daniel Tarschys of the University of Stockholm.

12. The activity is supported through a secondment from the Netherlands and a grant from Canada. The report is now being finalised for publication.

Tax Expenditures and Other Off-budget Expenditure

13. The second medium term priority determined at the 2003 SBO was to address issues which relate to the strengthening of fiscal rules. Accordingly, a meeting on controlling tax expenditures and off-budget expenditures was held at OECD Headquarters in Paris on 12-13 February. Forty delegates attended the meeting. It was chaired by Mr. Richard Emery, Assistant Director, Office of Management and Budget, United States and the Chairman of SBO. The meeting featured presentations and discussion of country case studies by Canada, Czech Republic, Germany, Greece, Hungary, Italy, Mexico, the Netherlands, Norway, New Zealand, Poland, Spain, Sweden and the United States. The objective of the meeting was to develop guidelines for good practice in controlling tax expenditures and off-budget expenditures based on national experiences. This acted as input to the report presented to this SBO meeting.

Review of Two Decades of Public Sector Modernisation

14. A priority in GOV's Programme of Work and Budget for 2003/4 is a review of public sector modernisation over the last two decades. The work takes a systemic whole-of-government view of modernisation efforts and trends (*e.g.* how do the systems for strategy, budgeting, management and accountability interact), and also how do different management approaches relate to the wider constitutional and institutional settings of different societies. BMD is drawing on the work it is doing under SBO as an input to this wider study especially in respect of performance oriented budgeting and

management, changing organisations, the role of central control agencies, accountability and control, and the use of market type mechanisms. This study will be completed in its pre-publication form by early 2005.

Comparative Review of Legal Framework of Budget Systems

15. Since mid-2003, a study has been underway that: (1) examines why the legal basis for budget systems differs so widely in OECD member countries; (2) discusses possible standards for budget systems laws, based on classical and modern principles of budget management; (3) compares actual budget laws in OECD member countries, based on case studies for the legal framework for budget systems laws in 13 OECD member countries. The country case studies are being sent to SBO for comment from national experts.

16. A first complete draft of the entire study (some 300 pages) is expected by end-June. The study is to be published in early 2005.

17. This activity has been made possible by the IMF through a visiting scholar and the Government of Korea in the form of a seconded staff member.

OECD Network on Fiscal Relations across Levels of Government

18. In December 2003, the OECD Council approved the establishment of the Network on Fiscal Relations across Levels of Government, supported by three OECD Directorates – the Economics Department, the Public Governance Directorate (including SBO), and the Centre for Tax Policy and Administration.

19. The main objectives of the Network are to:

- provide a place where officials and others can exchange experience and views on the policy issues involved in reforming fiscal relations across levels of government;
- analyse aspects of the design of fiscal relations across levels of government and their impact on local, regional and national development;
- establish and maintain a consolidated statistical database, covering both quantitative and qualitative aspects of fiscal relations across levels of government for network members.

20. The first meeting of the Network took place at OECD Headquarters in Paris on 29-30 April 2004 and addressed issues related to the allocation of taxing powers. An issues paper prepared by the Secretariat was discussed and several countries made presentations.

21. On 7 June, the Network will meet again to initiate work on the maintenance of a statistical database on quantitative and qualitative aspects of sub-national fiscal issues.

22. Work in 2005 will focus on expenditure across levels of government, in particular looking at: i) the design of grants that are effective in promoting public policy objectives and fiscal discipline at the sub-national level; and ii) competition and cooperation mechanisms at sub-national levels of government that improve the efficiency and effectiveness of public services (to be confirmed). The main topic for 2006 will be equalisation (to be confirmed).

23. The Network is funded by voluntary contributions from OECD member governments. Participation gives countries the opportunity to orient the Network's activities so as to best reflect the interests of their government.

Accountability and Control

24. A review of accountability and control systems in OECD member countries was launched in 2003

25. Twelve countries participated in a meeting hosted by the Spanish Government to launch this review in November 2003: Chile, Germany, Greece, Ireland, Italy, Japan, Norway, Slovak Republic, Spain, Sweden, the United Kingdom and the United States. In addition, the IMF and, acting as observer, a consultant for the French Government attended the meeting. In keeping with the cross-cutting nature of the issue, attendees came from a diverse set of backgrounds including internal controllers, auditors, accountants and budget department officials.

26. A number of challenges were identified at the meeting, including:

- Service delivery is changing – decision-making authority is being devolved and government services are being provided by indirect actors, including other levels of government, arm's length agencies, NGO's and the private sector – who are subsidised to do national business. Monitoring their actions and holding them to account is more difficult than for direct line ministries.
- Modern systems require more integration between external and internal control systems. However, coordination is difficult because of different needs, cultures and procedures of the systems. This coordination must be balanced against the need for external auditors to be independent and internal auditors/controllers to respond to senior management.
- Internal control is no longer a purely financial-based system. Systems need to be adapted to include the control of non-financial measures or indicators. Moreover, in some countries internal accountability regimes have to be adapted to include risk management or changed to control modern management regimes that focus on business operations rather than fiscal accountability. This means that the model for control is moving from a fundamental distrust of management to a model that values management taking risks and making decisions based on performance rather than rules.
- Control is changing from a legally based concept where the main worry was misuse of funds (criminal), rather than the new emphasis focusing on poor management (bad performance). It is also means that control systems are continuing the move from *ex ante* to *ex post* control systems.
- Parliaments are thought to be increasingly active in their oversight as evidenced by the move to place Supreme Audit Institutions (SAI) under parliamentary control or reporting regimes, or by making the SAI more responsive to parliamentary wishes. Whether the activity by parliaments is real or rhetorical is debatable, but executive branches feel the need to be more responsive. Providing information that is meaningful to parliaments is a significant challenge.

27. The next steps are to analyze these changes across member countries and produce a report using a questionnaire and case studies from the participating countries in the review. It is envisaged that the report will be finalized in late 2004.

28. The Government of Spain has contributed to this activity by hosting the expert meeting and by providing a secondee.

OECD Budgeting Database

29. The OECD Budgeting Database provides comparable information on about 350 individual aspects of the budget formulation, approval, implementation and audit phases. The Database, which was largely funded by a grant from the World Bank, is a fundamental resource for the OECD and other engaged in analytical work in this field. The Database is available on-line.

30. To date, 43 countries have completed the survey for the survey for the Database, including 27 OECD member countries. It will be closed for entry in September 2004. In the meantime, the OECD in conjunction with the World Bank, IMF, Inter-American Development Bank and the European Commission will commence a quality review of the existing data.

31. The current plan is to commence a substantial revision of the survey for the Database in early 2005 to improve the content of questions and possible responses. For those countries that have already responded, responses will be automatically transferred to the new survey as appropriate and they will only be asked to verify the old answers and answer new questions as needed. Based on preliminary analysis about 10% of the questions will be either dropped or fundamentally altered and another 20% would be expanded based on comments or modestly altered. There would probably be a limited number of new questions.

32. The OECD will seek funds towards the costs of the revision and maintenance of the database.

Network of Chairpersons of Parliamentary Budget Committees

33. The annual meeting of chairs of parliamentary budget committees took place immediately following last year's SBO in Rome on 5-6 June.

34. The meeting was held at the Italian Parliament and chaired by Mr. Giancarlo Giorgetti, the Chairman of the Budget Committee of the Italian Chamber of Deputies. It featured a keynote address by Mr. Giulio Tremonti, the Italian Minister of Finance. It was attended by 33 delegates representing 12 OECD member countries and 3 non-OECD countries as well as other officials.

35. The theme of the conference was the politics of budget formulation and oversight in a period of uncertainty. Debate during the conference centred around the need for more targeted and better information on risks in the budget. Some delegates also thought that the original budget presented to parliament could contain a more comprehensive allowance for risks and mechanism to address those risks, without asking for supplemental spending during the year. Other delegates questioned whether the executive should be entrusted with reserves that would be required to address these contingency and whether they would usurp parliamentary authority in the budget.

36. Other speakers at the meeting included Mr. Jean-Philippe Cotis, chief economist of the OECD; Mr. Yves Meny, President, European University Institute of Florence; and Mr. Dan Crippen, former Director of the United States Congressional Budget Office.

37. The meeting of chairs had been linked to the regular meeting of the SBO. However, early June proves to be a difficult time for ensuring maximum parliamentary attendance. Therefore, the next meeting will occur in the winter, tentatively the end of January 2005.

PART II WORK WITH NON-MEMBERS

38. All OECD's relations with non-members are conducted under the guidance of the OECD Committee on relations with Non-members (CCNM). A recent decision has however given responsibility to substantive committees (in this case the Public Government Committee) for programming outreach activities on their work area. The PGC looks to the SBO for advice on the budget and public expenditure aspects of the PGC outreach work.

39. The SBO discussed work with non-members at its 2002 meeting in recognition of the fact that such work had expanded very significantly in recent years.¹ The discussion centred on the three avenues open for working with non-members:

- To grant official "observer" status to non-members in order for them to participate in the SBO meetings themselves.
- To maintain "satellite" networks in different parts of the world, modelled on the SBO itself, where budget directors and senior officials from non-members can meet.
- To implement co-operation programs with individual non-members.

40. The discussion revealed a preference for using "satellite" SBO networks as the primary means of co-operating with non-members as they were judged to be the most cost-effective means of co-operation. This is further discussed below.

41. It should be noted that no part of the core OECD budget for SBO-related activities is used for working with non-members. These activities either have separate appropriations in the OECD budget, or depend on voluntary contributions from member countries.

Official observers

42. At present, there are four official observers to SBO – Brazil, Chile, Israel and Slovenia. It seems most likely that additional requests for observer status will be made. This status is the highest-level of associating non-members to the work of SBO and is granted by the OECD Council (ambassadors) following the application of uniform criteria.

43. This criteria is currently under review and substantive committees will likely be asked to develop their own specific criteria for observers, i.e. that committees pro-actively develop strategies for granting observer status.

44. In 2002, it was noted that SBO's experience with observers had been excellent but that it was simply a matter of arithmetic that a greater and greater number of observers would eventually compromise the SBO's capacity for informal dialogue among delegates. As a result, strict control should be maintained on the granting of observer status.

45. In terms of a pro-active strategy, the "anchor" countries (*i.e.* permanent host countries) for each regional SBO network seem a natural fit for observer status as they can act as a conduit between the SBO meeting itself and the regional networks. Large countries such as China and Russia also appear appropriate for official observer status.

1. "Cooperation with Non-Members on Budgeting Issues" PUMA/SBO(2002)12.

Regional SBO networks

46. As noted, regional SBO networks are the preferred form of co-operation with non-members. Such networks have been established for Asia, Latin America and Central and Eastern Europe. Exploratory work is underway for creating networks in the Middle East and North Africa and in Africa. Internal discussions have been held with the IMF on the possibility of establishing an SBO network for the CIS states (ex-Soviet Republics).

47. These “satellite” networks leverage the substantive work carried out for the regular SBO meeting while also giving an opportunity to tailor parts of the agenda of the meetings to region-specific issues. This allows individual countries to be associated with OECD work; this is especially important for countries that would not warrant observer-status or a country-specific program (see below). It reduces the required travel time and costs for officials from the relevant countries. The establishment of such on-going regional meetings is of special value in regions where no pre-existing formal associations are in place.

Latin America SBO network

48. The 2nd Annual OECD Latin America SBO meeting was held in Santiago, Chile on 28 January 2004. The meeting was held in conjunction with the annual Fiscal Policy Seminar hosted by the United Nations Economic Commission for Latin America.

49. It attracted budget directors and other senior budget officials from member and non-member countries in the region, including Argentina, Barbados, Belize, Bolivia, Brazil, Chile, Colombia, Cuba, Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Panama, Paraguay, Peru, Uruguay, Venezuela. The meeting was chaired by Mr. Mario Marcel, Budget Director of Chile and opened with a keynote speech by Mr. Barry Anderson, past chairman of the SBO.

50. The meeting featured sessions on reallocation, budget transparency, participatory budgeting, peer review of the Brazilian budgeting system and a presentation on the results of the OECD Database on Budget Practices and Procedures.

51. As noted, the Latin America SBO network works closely with the United Nations Economic Commission for Latin America. They have offered to permanently host the meeting at their headquarters in Santiago, Chile. Discussions are currently underway to secure sustainable funding for the network. The Inter-American Development Bank, with the strong support of Chile and other countries in the region, has signalled its willingness to co-operate in with this network.

Asia SBO network

52. There was no meeting of the network in 2003. This was both due to a lack of resources and a desire to shift the timing of the meeting from November, when the previous meetings had been held, which was inconvenient for some countries in the region.

53. The Asia SBO network was the first of the regional SBO networks to be established and has held two meetings – in Singapore in November 2001 and Bangkok in November 2002. The meetings were very successful and attracted wide attendance from the region, from both OECD member and non-members, including Australia, Cambodia, China, Chinese Taipei, Hong Kong, India, Indonesia, Japan, Korea, Laos, Malaysia, New Zealand, the Philippines, Singapore, Sri Lanka, and Vietnam.

54. As noted, the network is temporarily “on hold.” The Government of Thailand has generously offered to permanently host the meeting in future. Additional funding is required before the Asian SBO

network can resume its meetings, and efforts are currently underway to seek sustainable funding. In 2001 and 2002, such funding was provided by the Government of Japan.

55. Preliminary discussions have also taken place with Korea on joint activities with non-members in the region.

Central and Eastern Europe SBO network

56. The first meeting of the Central and Eastern Europe SBO network is scheduled for 10-11 November 2004. It is being hosted by the Netherlands Ministry of Finance in The Hague. The meeting coincides with the Dutch presidency of the European Union.

57. Budget directors and senior officials from member and non-member countries in the area will be invited to the meeting, including Albania, Armenia, Azerbaijan, Belarus, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Lithuania, the former Yugoslav Republic of Macedonia, Malta, Republic of Moldova, Poland, Romania, Serbia and Montenegro, Slovak Republic, Slovenia, Turkey and Ukraine. The agenda for the meeting is being finalized. Further details of this meeting will be provided in due course.

58. As part of the preparations for this meeting, it is envisaged to carry out two country reviews of budgeting systems. This work is partially paid for by the German international development body, GTZ.

59. Preliminary discussions have also taken place between the OECD and IMF to co-operate on regional budgeting dialogue in this area, focuses specifically on the Former Soviet Union countries. Again, further details of these discussions will be provided in due course.

Exploratory networks

60. The OECD in co-operation with the United Nations Development Programme has been working with countries in the Middle East and North Africa (MENA) on launching an initiative to foster good governance in the area. The OECD has been given lead responsibility for all activities related to budgeting ("governance of public resource"). It is unclear how this MENA initiative will materialise but one of its components could be a regional SBO meeting for the area. This should be clarified at an organisational meeting in November this year.

61. The OECD has also been co-operating with NEPAD, the New Partnership for African Development, in promoting good governance in the area. In this context, discussions have been underway to launch an African SBO network. Work on specifying this work further is being carried out and an organisational meeting will take place this summer.

62. It should be noted that both the MENA and the NEPAD initiatives are ministerial priorities for the OECD as a whole. The regional networks that may emerge from these initiatives are of a different nature than the regional SBO networks in other areas and would require significantly larger resources to be implemented.

Country-specific programs

63. Country-specific programs are the most intensive form of co-operation and the advantage of the country-specific programs lies in their intensive nature. The OECD establishes ongoing and substantial professional relations with senior officials in the respective countries. As a result of its accumulated knowledge of the local circumstances in the country and its relations with senior officials, the OECD is able to design programs that fit optimally with the needs of the unique needs of the country. This also

makes it more likely that the programs will have a greater impact on the reform process in the respective countries. The disadvantages of the country-specific programs also lie in their intensive nature. They are expensive requiring significant resources.

64. The country-specific programs generally centre on a series of events in the respective country where senior officials from member countries share their policy experiences and best practices with their counterparts in the country. SBO events always involve senior officials from several member countries taking part. This is in order for the respective country to be able to compare the different strategies that member countries have adopted and for them to be able to design their own reform program drawing on the lessons from several member countries.

65. At present, SBO only conducts relations with China on this basis. Extensive relations are maintained with the Ministry of Finance, the National People's Congress, the State Council Office of Public Sector Reform (SCOPSR), the National Development and Reform Commission and other relevant bodies. A formal Memorandum of Understanding was signed between the OECD and SCOPSR earlier this year. Due to SARS, no activities were conducted in China for most of 2003. Three meetings have taken place or are scheduled for the first half of 2004.

66. The Working Party co-operates closely with other international organizations in China, principally the World Bank, in order to reinforce each other's activities and avoid any duplication of work. The World Bank maintains resident experts advising a government on an on-going basis on budgeting reforms. OECD meetings generally take place at major milestones during an on-going reform effort. The OECD and World Bank are in the process of establishing a joint Trust Fund to finance activities in China in this field.

PART III RESOURCES APPLIED TO BUDGETING AND PUBLIC EXPENDITURE WORK

67. The work on budgeting and public expenditure is undertaken within the Budgeting and Management Division of the Public Governance and Territorial Development Directorate. This division supports the SBO WP and the HRM WP. In the year since the 2003 SBO meeting in Rome, the staff resources (with percentages expressed as full-time equivalents – ftes) applied by the division to the SBO related work have been:

OECD Part 1 Funded Staff

- Division Head – Alex Matheson – 60% (fte)
- Deputy Division Head – Jon Blondal – 100%
- Administrator – Michael Ruffner – 100%
- Administrator – Teresa Curristine – 50%
- Publications and Support Officers – Helene Leconte, Deirdre Wolfender, Jennifer Gardner – 200%

Part 2 Funded Staff (either directly paid by member governments or paid out of special grants)

- Project Manager – Dirk Kraan (Holland) – 80%
- Project Manager – Joaquin Sevilla (Spain) – 100%
- Project Manager – Jung Moo-Kyung (Korea) – 100%
- Project Manager – Chiara Goretti (Italy) – 50% fte (term completed)
- Project Manager – Marcela Guzman (Chile) – 40% (term completed)
- Project Funded Administrator – Dorothee Landel – 30%
- Project Funded Support Officer – Lyora Raab – 60%

Other Staff Resources

- Visiting Expert – Ian Lienert (IMF, on Sabbatical) – 75%
- Interns – 25%

Total staff resources used in past year: 10.7 (fte)

Other Resources

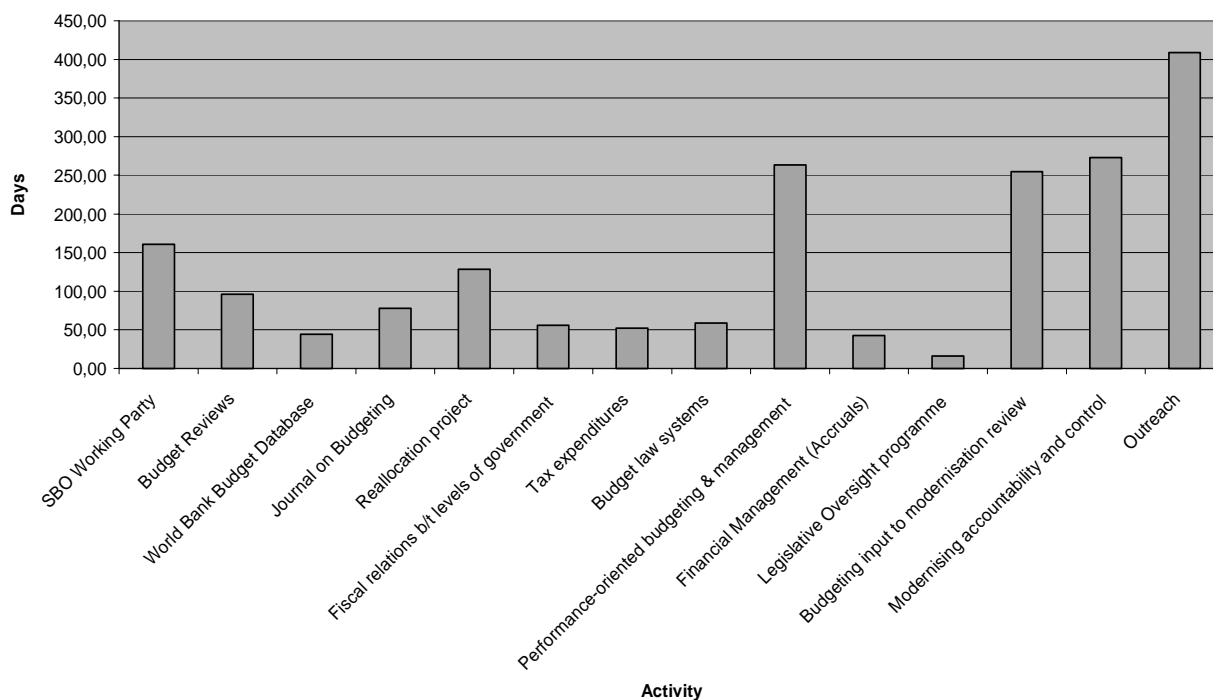
68. Over the year in question the sources of operating funds and support in kind for the SBO-related work have been:

- Part 1 OECD Funds
- Part 2 Funding (including secondments) and cost recovery applied to core work programme
- Part 2 Funding for Outreach work
- In-kind support: Hosting of 2003 and 2004 SBOWP meetings (Italy and Spain), Hosting of 2003 Parliamentary Budget Chairs' meeting (Italy), hosting of Seminar on Accountability and Control (Spain), provision by Germany (GTZ) of expert for review of Budget System of Romania

Funding between 1 June 2003 and 31 May 2004

<i>Part I</i>	
Operational Funds from OECD	28 812.00 (not including 5.1 ftes)
<i>Voluntary contributions expended</i>	
Spain	156 031.00 (includes 1 secondee)
Netherlands	103 282.00 (1 secondee)
Norway	2 340.00
Denmark	2 340.00
Canada	12 662.00
<i>Secondee staff provided in kind</i>	2.6 ftes
Total	276 652,00
<i>Outreach</i>	
Cost recovery for Budget Reviews (Brazil and Chile)	63 903.00
China (CCNM)	42 493.00
Japan	5 552.00
World Bank	22 218.00
IADB	4 874.00
Total	139 040
Grand total	444 504.00

Allocation of staff time by activity June 03-June 04



69. As indicated above, Outreach has become an increasing important component of the Secretariat’s work on behalf of SBO. This reflects wider OECD policy. We consider that the work on Outreach adds to rather than distracts from the work for SBO members. Not only is all Outreach work fully cost-recovered including for staff time – but the involvement in this work contributes to our critical professional mass, and allows data gathering and analysis on budgeting generally that we could not support on our core funding.

**PART IV
DRAFT PLAN FOR 2005 AND 2006**

70. The OECD's new system for planning and budgeting allocates funds to specified outputs in two-year blocks, and within the next three months, the Programme of Work and Budget (PWB) for the OECD for 2005 and 2006 will be finalised. The plan for the Public Governance Directorate as a whole has been considered in draft form by the Public Governance Committee, to which the SBO is a Working Party. Below is the draft plan for the Output on Budgeting and Public Expenditure, which is the work that falls under SBO.

71. At the last SBO meeting in Rome, there was wide agreement around two medium-term priorities. These were:

- Performance: Issues to do with the formalisation of targets, goals, outputs and measures in the budgeting, management and reporting system. There was emphasis on the next generation of this work being as practical as possible. This year we have held a symposium and an expert meeting on the issue, and a cross-OECD survey has been piloted and will shortly be sent to all members. This survey is intended to provide us with the empirical and comparative bases for our future analysis. The products of this work will begin to be available to members from the first half of 2005.
- Transparency and completeness of budget disclosure: The last SBO meeting asked that more work be done in these areas to help ensure the effectiveness of fiscal rules. The report being considered at this meeting on tax expenditures is the first product of this work so far. This paper has been prepared on the basis of a symposium earlier in the year.

72. The OECD resources available for the support of the SBO are likely to remain at their current level. The staff resources paid from Part I will be directed mainly at the two areas above and also to the data gathering and analytical work which supports our wider work on budget frameworks and dynamics (*i.e.* one or two country reviews, the improvement of the OECD Budgeting Database, and the completion of the current project on comparative budget laws). Priority will also be given, at least in 2005, to the completion of the work initiated after the last SBO which will provide comparisons and analysis in the area of accountability and control.

73. The other activities on the attached draft plan will be undertaken to the extent that member countries are willing to make additional resources available. These are:

- Expenditure across levels of government: A horizontal OECD project on fiscal relations between levels of government has been launched on the basis of a group of countries combining to provide a funding base at a rate of EUR 18 000 per year and to provide secondees. The topic in 2004 is taxation, and for 2005 it will be expenditure. SBO members with an interest in this work are encouraged to participate in the network.
- Country budgeting surveys: The Secretariat is under pressure to put these surveys on a cost-recovery basis to free up resources for other work. The Public Governance Committee has asked that the SBO Working Party meeting consider this matter and let the Committee know its view.
- Widening and deepening research on a range of public expenditure issues: As will be discussed elsewhere in this meeting, some members have expressed an interest in building up the research

and analysis capacity which supports the SBO work, through providing staff and operating funds for a unit undertaking comparative research on a range of microeconomic interventions in the budgeting and public expenditure area. How much can be done will depend on the priorities agreed and on what resources members can make available. The topics suggested in the plan have been drawn from suggestions of a few interested members, but should be given wider consideration during this meeting.

WORK PROPOSAL FOR 2005/6 FOR CONSIDERATION BY THE SBO**OECD PWB 2005/ 2006: EXTRACT FROM PUBLIC GOVERNANCE COMMITTEE DRAFT PLAN****Activity 1. Public Budgeting and Expenditure***Policy environment*

74. As member countries strive for better collective decision-making, the budget system is of central importance for harmonising the competing objectives of controlling aggregate spending, allocating and reallocating scarce resources, and ensuring that public expenditure is both efficient and effective. The Budget is of growing importance, too, as the framework for public scrutiny, parliamentary oversight, and for creating an environment of trust and predictability about government actions.

75. In addition to the budget system, which can be seen as the demand side of the economic process in the public sector, the service delivery system, or the supply side, is also a primary concern of member countries. Since the 1980s, far-reaching reforms have been implemented in many countries, ranging from privatization, contracting-out, and creation of agencies at arm's-length from the ministries to new public management reforms within the existing organisational structure of central government.

76. Budget policy and procedures, and financial management have been one of the core programmes of the Committee. The programme of work has been designed to accompany the reform processes in OECD member countries. This work is supported by the working group of the Senior Budget Officials (SBO).

Expected outcomes

77. The expected outcome of this activity is to provide member countries with the tools and capacities for designing policies that improve the sustainability of public finances, and for making better use of performance information in management and budgeting, leading to improved decision-making and accountability.

Output results

Output type	Final output result	Intermediate outputs
Reports and studies	Reports on Transparency Coherence and Aggregate Control (Q4 2006)	2005: – Report on Budgeting for the Longer Term (Q2) 2006: – *Report on Tools for Central Resource Management (Q4)
	Reports on Allocative Efficiency (Q4 2006)	2005: – *Report on Expenditure Across Levels of Government (Q2) – *Report on Subsidies and Grants (Q4) 2006: – *Report on Non-tax Revenue (Q4) – Reallocation
	Reports on Performance and Results: the Quality of Public Expenditure (Q2 2006)	2005: – Report on Performance Budgeting (Q2) – Report on Market Type Mechanisms (Q2) – Report on Accountability and Control (Q2)
Data and Indicators	Comparative Reviews of Budget Institutions (Q4 2006) This will contribute to work on key indicators (Activity 1.6)	2005 – *Peer review of Country Budget Systems (Q2) – *Database on Budgeting Practices and Procedures (Q2) – Report on Comparative Budget Laws (Q3) – Reports on Budget Laws of Individual Countries (Q4) 2006: – *Peer review of country budget systems (Q2, Q4) – *Database on Budgeting Practices and Procedures (Q2) – Reports on Budget Laws of Individual Countries (Q4)

**Items identified for cost recovery/voluntary contributions.*

Staff resources

Activity	Management, experts and analysts	Project support	Voluntary contributions required
Public Budgeting and Expenditure	88 staff-months	73 staff-months	96 staff-months