

# Budget Transparency

## Experiences from OECD Countries

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## Agenda

- Obstacles to Budget Transparency
- *OECD Best Practices for Budget Transparency*
- Key Transparency Issues in OECD countries



## Obstacles to Budget Transparency

- **Vested Interests**
  - “Information is Power”
- **Difficult to Communicate**
  - Generally very technical
- **Individual citizens don’t see how it impacts them personally**
- **Parliaments not active enough in scrutinizing information**

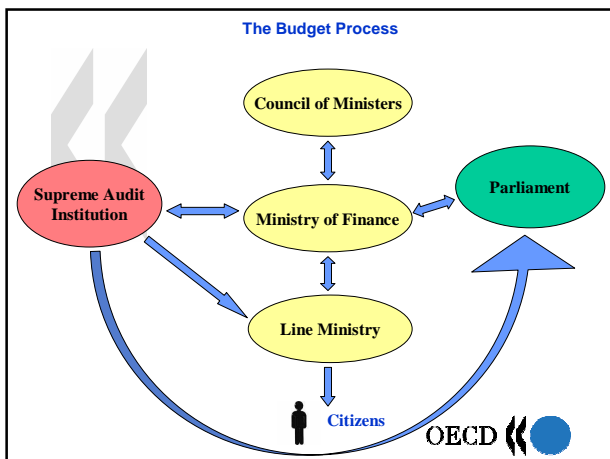


## *OECD Best Practices for Budget Transparency*

- **Agreed in 2001 by budget directors from OECD countries**
  - Based on actual experiences of Member countries
  - Emphasis on practical applications
- **“Three pillars” of the *Best Practices***
  - Budget reports that should be prepared
  - Specific disclosures that should be made
  - Processes that should be in place to ensure their integrity



The Budget Process



## Budget Reports

- The Budget
- Pre-Budget Report
- Monthly Report
- Mid-Year Report
- Year-End Report
- Pre-Election Report
- Long-Term Report



## Specific Disclosures

- Financial Liabilities & Assets
- Non-Financial Assets
- Economic Assumptions
- Tax Expenditures
- Civil Service Pension Obligations
- Contingent Liabilities



## Ensuring Integrity

- Accounting Policies
- Systems and Responsibilities
- Audit
- Parliamentary and Public Scrutiny



## Key Transparency Issues

- Economic Assumptions
- Accrual Accounting and Budgeting
- Tax Expenditures
- Public-Private Partnerships
- Contingent Liabilities
- Civil Service Pensions Obligations
- Long-term budget reporting
- Performance Information



## Economic Assumptions

- **Primary Transparency Issue**
  - Unrealistic assumptions can fundamentally derail budget policy
  - Objectivity is key
- **Required Practice**
  - Explicit disclosure of all key variables
  - Sensitivity analysis
- **“Second Generation” Practice**
  - Publish “track record” of own forecasts’ accuracy
  - Compare current forecasts with other private forecasts
  - Average of “blue chip” private forecasts
  - Independent panels
  - “Prudence” factors



## Accrual Accounting and Budgeting

- **Designed to provide better information on government finances**
- **...But is very complex (and can be abused)**
  - Non-Cash Items (depreciation)
  - Capitalising expenses
  - Need for many judgments
- **Emerging OECD Consensus**
  - Financial statements on Accruals
  - Budgets on Cash (with Limited Accruals)
    - “Political Matching Principle”
  - Different bases can be reconciled



## Tax Expenditures

- **Preferential tax treatment for specific activities**
  - Conceptually, difficult to measure
- **Alternative to “normal” expenditures**
  - Less Scrutiny (Both initially and over time)
  - Politically attractive (“Lower” reported taxes)
- **Reform proposals**
  - Integrate with regular budget process
  - Tax expenditures assigned to relevant spending ministry
  - Top-down expenditure caps for tax expenditures



## Public-Private Partnerships

- A gimmick or a value-for-money proposition?
- Value-for-money requires real risk transfer from the public sector to the private sector
  - Construction risk, availability risk, demand risk
  - Efficiency gains must outweigh higher financing costs
- Without such real risk transfer, then PPPs are simply a mechanism to move projects and related financing off-budget
- Establishing effective procedures for the budgetary treatment of PPPs is a work in progress in OECD countries



## Example: Skye Bridge

- Local councils had agreed to its construction believing the toll would be less than £1. When the bridge opened in 1995, a crossing cost £4.50.
- In 2005 the PPP consortium was bought out by the government.
- The bridge cost £21m to build.
- It took more than £33m in tolls and
- the government had to pay a further £27m to the PPP consortium to end the contract.
- Another UK lesson IT-projects cannot be PPPs (since 2005)



## Contingent Liabilities

- Liabilities whose budgetary impact depends on future events which may or may not occur
  - Loan and Guarantee Programs; Insurance Programs; Legal Claims Against the Government; PPP's without appropriate risk transfer; Et cetera
- Quantify and Classify by Category
  - But some are non-quantifiable
  - Long time to achieve complete coverage
- Measures to Control New Contingent Liabilities
  - Same scrutiny and approval requirements as for expenditures
  - Up-front funding of default risks (and interest rate differentials)



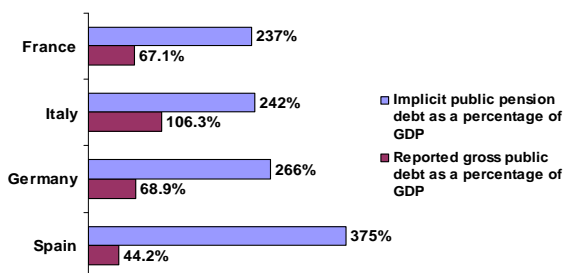
## Civil Service Pensions Obligations

- **Unfunded Obligations**
  - Difference between accrued benefits arising from past service and the contributions the government has made towards those benefits
  - Scale of liability is generally huge (actuarial)
- **OECD countries started recognizing them in the 1990's**
  - Coincided with the adoption of accruals, fully or selectively
  - Generally very high profile events
  - Old plans stopped for new entrants, replaced by new fully-funded programs
  - Impact on wage negotiations
- **But some countries oppose their recognition**
  - Claim it limits possibilities for future change
  - Pensions not viewed as an earned contractual right



## Social Insecurity

Public pension liabilities vs. "on the books" debt



Source: Wall Street Journal, Nov 2006 (Eurostat, Frederiksen 2001, Werding 2005, Beltramini 1996)



## Long-term budget reporting

- The long term sustainability of current policies (10-40 years)
- Long-term fiscal outlook is dire in most OECD countries (pensions, demographics etc) but public demand and political will to institute necessary reforms is lacking
- The issues are well known and do not change markedly from year to year
- The primary purpose of this reporting is to provide a "voice for the future" in the annual budget process
- Major project currently underway at OECD



## Performance Information

- **Fundamental shift from inputs to outcomes and outputs**
  - Results as basis for accountability
- **Defining and measuring performance lags behind**
  - Coverage incomplete
  - Frequent changes
- **Reliability of performance information**
  - Internal Controls
  - External Audit
- **Use of performance information in the budget process**



## For further information

- *OECD Journal on Budgeting*
- [www.oecd.org/gov/budget](http://www.oecd.org/gov/budget)
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