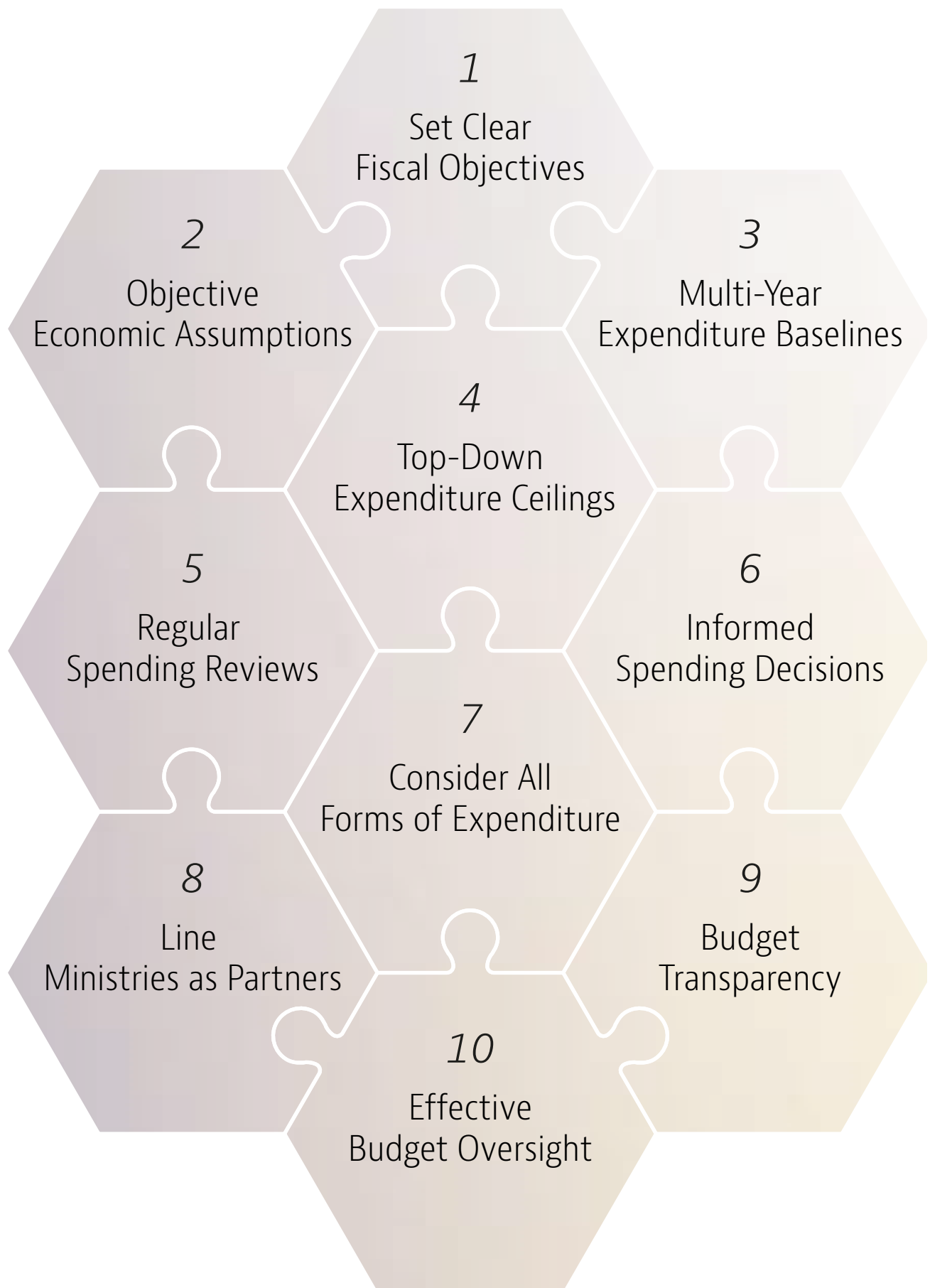


Spending Better

OECD Spending Better Framework



Introduction

The OECD Spending Better Framework presents the key features that constitute quality budget institutions. It is organised around ten principles, “connecting the dots” of various budget reform initiatives. It is a comprehensive framework that should be viewed holistically. It defines the key entities, functions, processes and procedures that together constitute quality budget institutions.

1

Set Clear Fiscal Objectives

Setting clear fiscal objectives is core to achieving fiscal goals.

All key fiscal objectives should be explicitly disclosed, including for the budget balance and the aggregate levels of revenue, expenditure and debt.

High-level fiscal objectives can take the form of legislated fiscal rules, a government statement to parliament, or be contained in Coalition or other political agreements.

They encourage prudent fiscal management by providing a benchmark to hold government accountable.

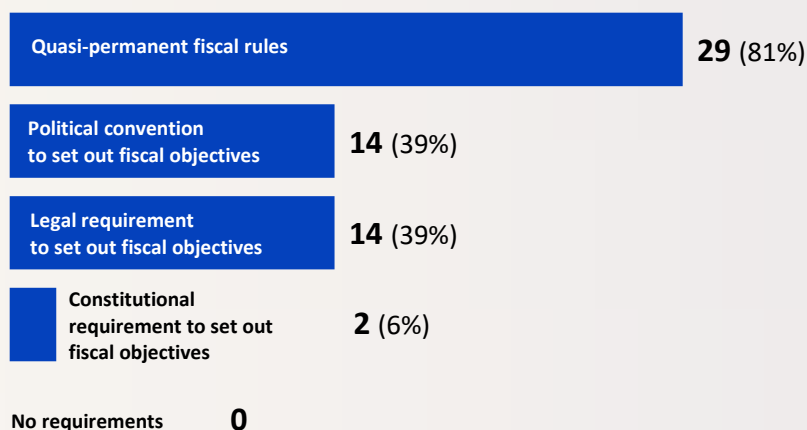
They provide the anchor for subsequent principles that operationalise the high-level fiscal objectives – especially top-down expenditure ceilings.

Simplicity in design promotes transparency and accountability.

Fiscal policy requirements at national level in OECD countries

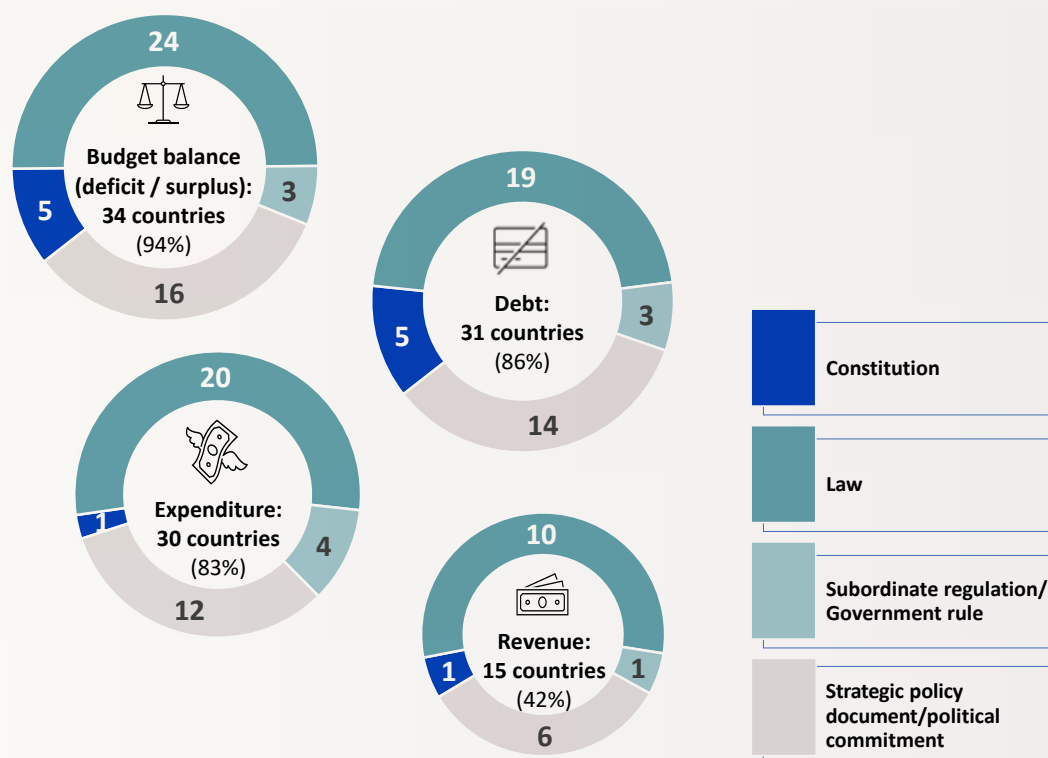
29 in 36

countries have quasi-permanent fiscal rules laid out in constitution or legislation



Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q2.

Legal basis for national fiscal rules and fiscal objectives in OECD countries



Note: Countries may have several national fiscal rules and fiscal objectives for the same type of fiscal rule/objective.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q3.

2

Objective Economic Assumptions

Unbiased economic assumptions are crucial to avoiding revenue shortfalls and unplanned spending pressures.

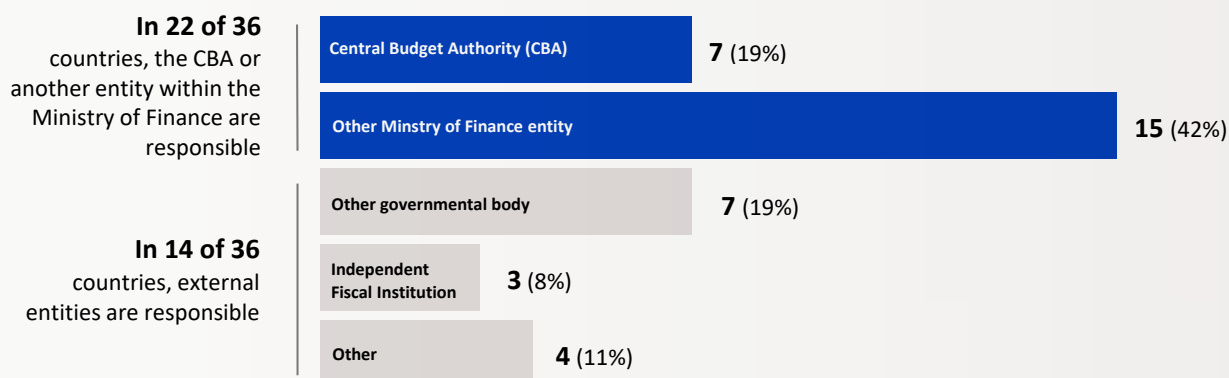
All key economic assumptions should be disclosed. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates. Any deviations from previously applied assumptions should be highlighted.

Any adjustments for risk to provide a cushion against an unexpected economic downturn or shock to the public finances should be disclosed.

A sensitivity analysis should be carried out to quantify uncertainty, i.e. showing how alternative assumptions for key economic variables would affect the budget.

Independent fiscal institutions are an important partner in ensuring that economic assumptions are objective, whether that is through producing the official economic assumptions or validating the reasonableness of the government's estimates.

Entities responsible for developing macroeconomic forecasts in OECD countries



Note: "Other" includes independent research institutes and the central bank.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q6.

Approaches to prevent forecasting bias in OECD countries

	Macroeconomic forecast	Revenue forecast
Disclosure of forecasts in budget documentation	33	34
Disclosure of risks to the forecasts	32	22
Disclosure of variables, components and assumptions	27	23
Disclosure of differences between versions of forecasts	25	25
Role for Independent Fiscal Institutions	25	21
Use of international/best professional standards	13	12
Consideration of forecasts produced by other institutions	10	8
Other	2	1

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q7.

3

Multi-Year Expenditure Baselines

Baselines illuminate the multi-year implications of spending decisions, and act as an early warning of emerging expenditure trends. They facilitate decisions to re-allocate resources.

Baselines should have a medium-term time horizon of 3-5 years beyond the budget. Each baseline should be rolled over for an additional new year with each budget.

Baselines should be continually updated within the CBA to reflect all policy decisions with an expenditure impact, and should be published at regular intervals.

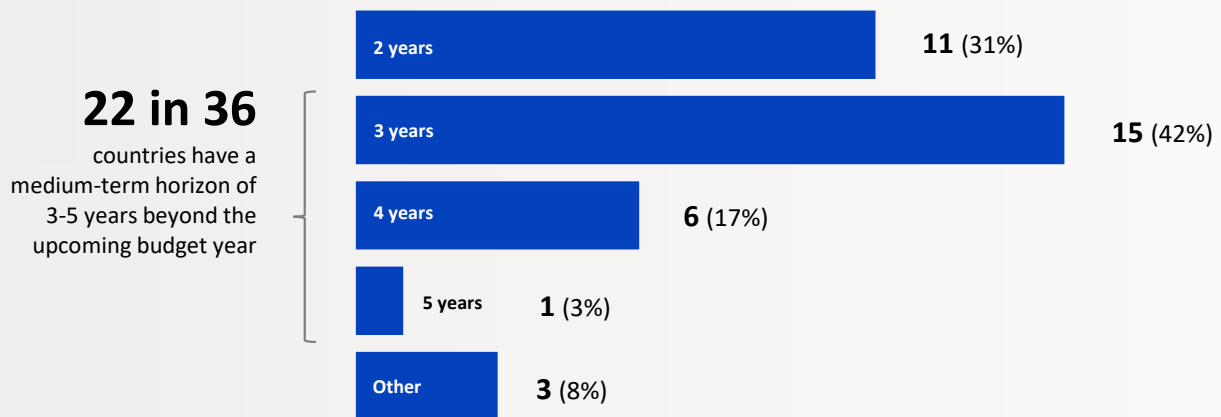
Baselines should include all expenditure, whether authorised in the annual budget law or in separate legislation ("mandatory" or "entitlement" expenditure).

Baselines should be presented at an institutional level, not only at aggregate level.

There should be a reconciliation of the baseline and actual expenditure to encourage discipline in its preparation and foster transparency.

Preparing the baselines should be the responsibility of the same entity that prepares the annual budget. Baselines are an integral part of the budget process, not a separate exercise.

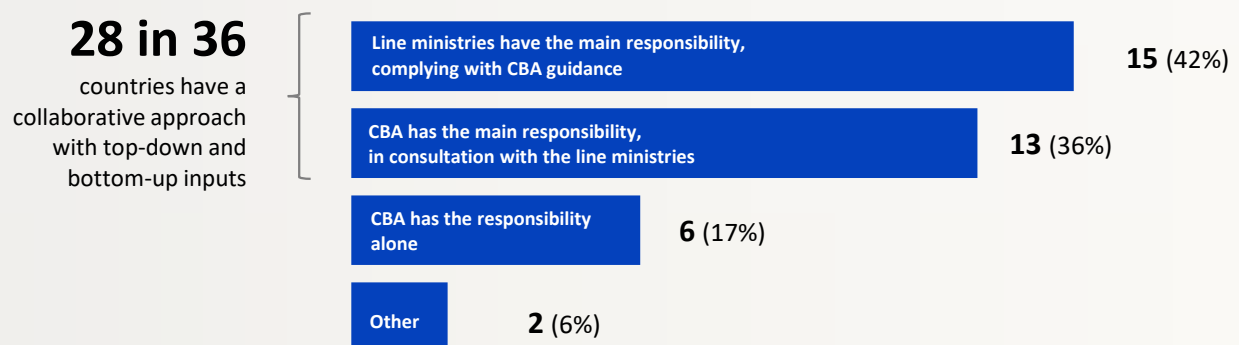
Length of multi-year expenditure baselines in OECD countries



Note: The indicated time period does not include the upcoming budget year. "Other" includes, but is not limited to, varying or longer time periods.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q11.

Responsibility for maintaining the multi-year expenditure baselines in OECD countries



Note: "Other" includes different departments within the Ministry of Finance, the Cabinet and other governmental bodies.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q8.

4

Top-Down Expenditure Ceilings

Top-down expenditure ceilings are the bedrock of the budget process. They operationalise the government's high-level fiscal objectives in concrete terms and reflect allocations and reallocations to fund new policy initiatives.

Expenditure ceilings should be established for the medium-term, either consistent with the government's term of office, or on a rolling basis. If the latter, decisions by a new government should show changes from the previous one.

For out-years in a multi-year framework, expenditure ceilings may be grouped together and be more indicative in nature.

The total level of annual expenditure should be disaggregated into separate expenditure ceilings and allocated to ministers. An expenditure ceiling should optimally be the responsibility of a single minister. A minister may have one expenditure ceiling for the whole of his/her ministry, or specific sub-ceilings within the ministry for certain programmes.

Certain expenditure ceilings may be deemed flexible in nature. This is especially applicable to cyclical areas of expenditure, such as unemployment benefits. Interest expenditure may be similarly treated.

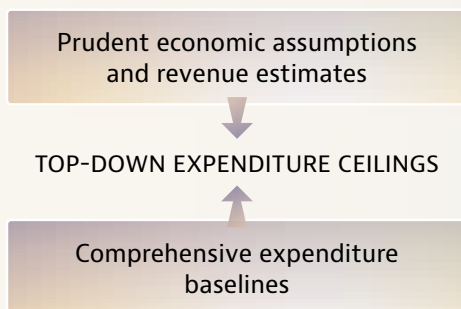
Ministers should have flexibility and autonomy to reallocate resources within their expenditure ceilings. The CBA should have the capacity to assess such reallocations and ensure that decisions by line ministers are within the overall policy and budget framework. Rules for reallocation between different categories of expenditure (such as personnel, other operating expenditure, transfers and capital expenditures) should be set.

Expenditure ceilings should be set at the start of the annual budget preparation process prior to any consideration of "bottom-up" spending requests from line ministries.

Once set, the ceiling should not be varied during the budget preparation process to ensure the credibility of the overall framework, and to ensure that expenditure is in line with the government's fiscal objectives.

Robust monitoring and enforcement mechanisms need to be in place to ensure that actual spending is in line with the expenditure ceilings.

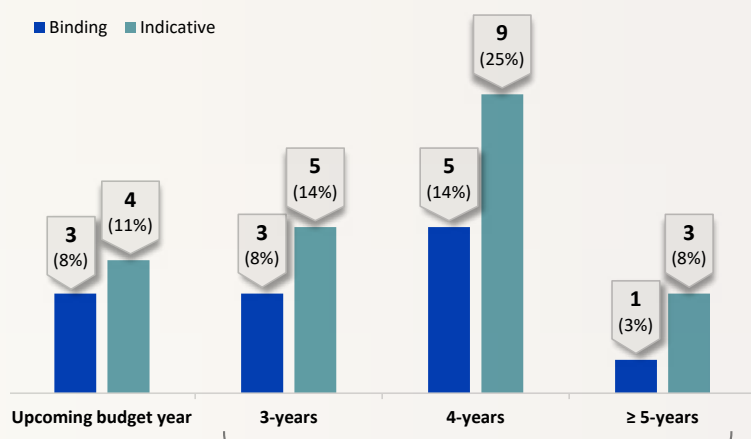
An unallocated reserve or, "margin", should be in place to meet unforeseen and exceptional contingencies while ensuring the integrity of the high-level fiscal objectives.



Informed by prudent economic assumptions and revenue estimates, and comprehensive expenditure baselines, the level of total expenditure compatible with the government's high-level fiscal objectives is set.

This shows the fiscal space available, or level of fiscal retrenchment needed. This facilitates decisions on reallocations required to implement the government's policy agenda.

Types and length of top-down expenditure ceilings in OECD countries



Note: Shows up to which year binding or indicative ceilings are used. Countries with multi-annual indicative ceilings may also have binding ceilings for fewer years. Australia, Belgium and Italy do not use top-down expenditure ceilings as part of their budget systems. Australia and Belgium publish multi-annual expenditure forecasts that are not ceilings in nature. In Italy, legislation authorises the use of expenditure ceilings, but they have not yet been used in practice.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q16.

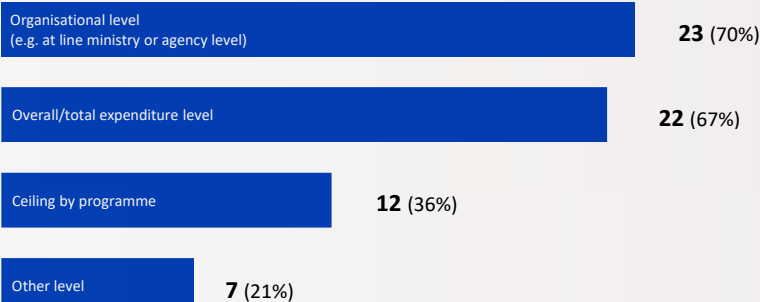
26 in 36

countries have multi-annual top-down expenditure ceilings

Granularity of top-down expenditure ceilings in OECD countries

29 in 33

countries with top-down expenditure ceilings set the ceilings at either organisational or overall/total expenditure level or at both



Note: Only refers to 33 OECD countries that use top-down expenditure ceilings. Countries may implement a mix of top-down expenditure ceilings at various levels of granularity and for different time periods.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q17.

5

Regular Spending Reviews

Spending reviews develop recommendations to reallocate expenditure in order to align spending with government priorities, and to control total expenditure.

All expenditure, not only new proposals, should be subject to spending reviews. Each spending review may focus on a specific area of expenditure.

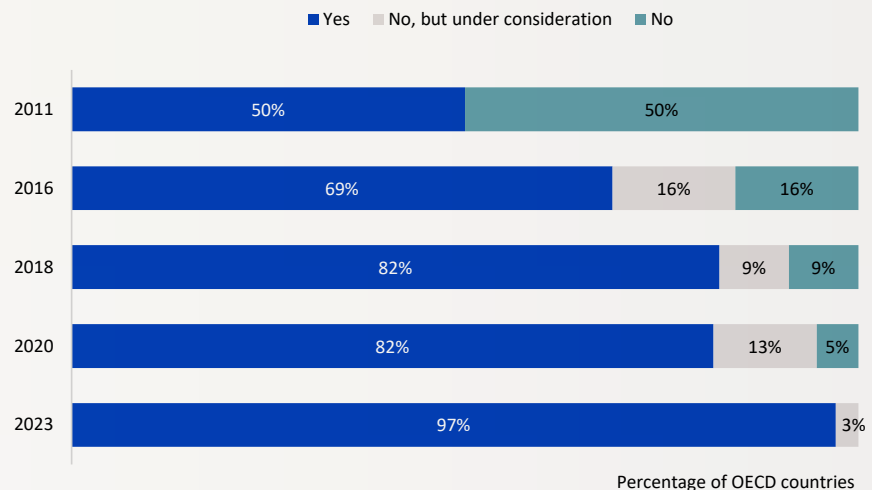
Spending reviews should have clearly specified objectives, scope and governance arrangements, and include recommendations which are transparent and ensure accountability.

Spending reviews are inherently linked to the budget process, otherwise the recommendations of the spending reviews are less likely to be implemented.

Performance and results information, budget impact analysis, and public policy evaluations are key inputs to spending reviews.

Implementation of Spending Reviews over time in OECD countries

Increase
in the implementation of
Spending Reviews from 50%
in 2011 to 97% of countries
in 2023

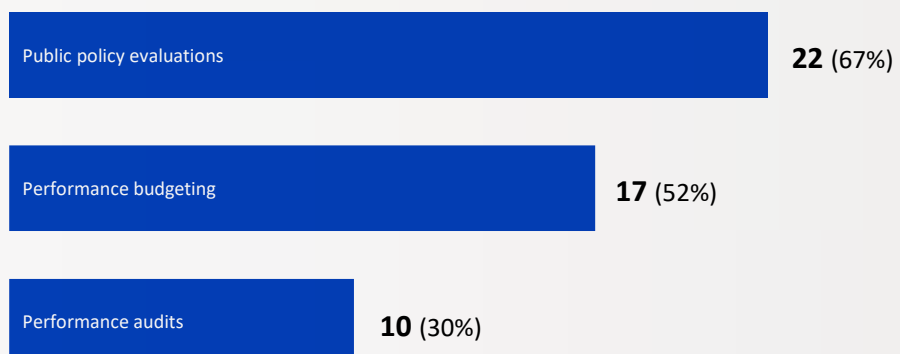


Note: The number of OECD countries has increased over time. The data is for survey respondent OECD countries at that point in time. The 2020 dataset refers to all current 38 OECD countries. In 2023, 34 OECD countries out of 35 survey respondent OECD countries implement Spending Reviews.

Source: OECD (2023), OECD Spending Review Survey, results for 35 countries, Q1.

Performance tools and approaches feeding into spending reviews in OECD countries

28 in 33
countries implementing
spending reviews have
performance tools and
approaches integrated
into the reviews



Note: In 2023, 34 OECD countries were implementing Spending Reviews but only 33 countries responded to this question.

Source: OECD (2023), OECD Spending Review Survey, results for 35 countries, Q13.

6

Informed Spending Decisions

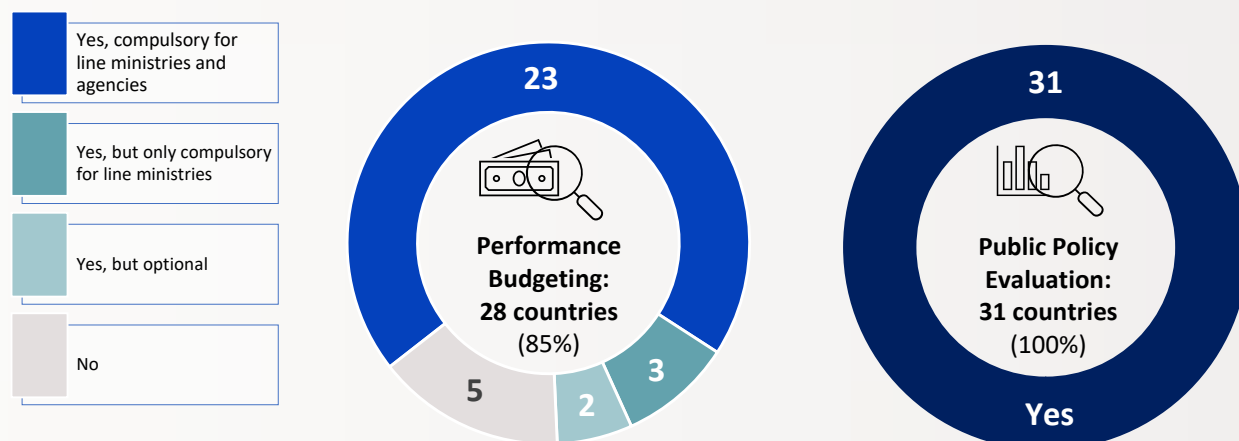
Performance and results information, budget impact analysis and public policy evaluation are tools to help inform spending decisions and improve expenditure performance.

Key performance indicators and targets should be included in budget documents together with monitoring mechanisms and regular reporting. Guidelines from the Ministry of Finance should inform the number of targets and indicators to be used, and maintain a stable structure of performance information over time to ensure comparability of data and promote accountability.

The budget and the budget process are powerful instruments for affecting change, including in areas such as climate change and gender equality. Budget impact analysis is one of the tools that can help inform how budget decisions impact both positively and negatively on specific high-level policy goals.

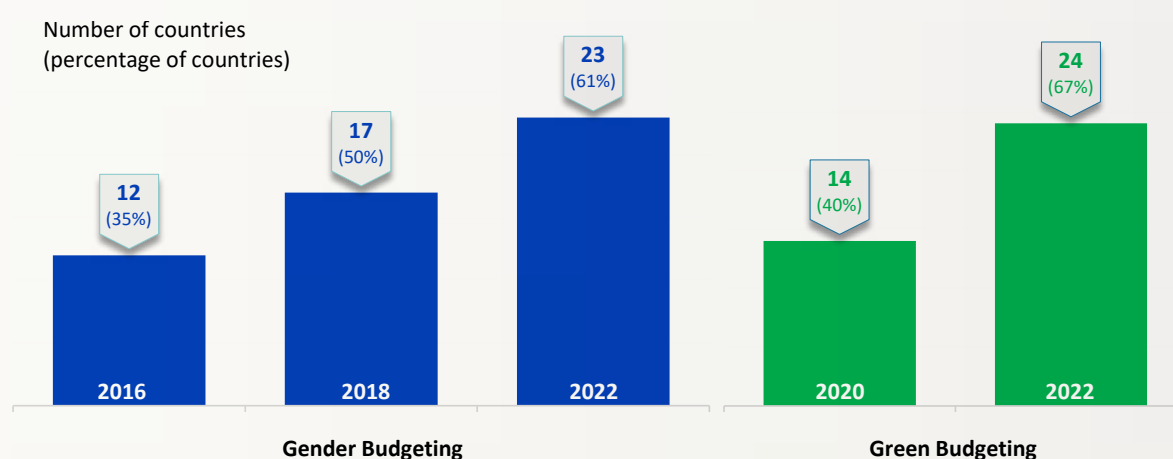
Policy evaluations allow budget decision-makers to conduct in-depth evidence-based assessments of the efficiency, effectiveness and results of programmes and the continued relevance and viability of the programmes' objectives.

Performance Budgeting and Public Policy Evaluation in OECD countries



Source: OECD (2023), OECD Performance Budgeting Survey, results for 33 countries, Q1; OECD (2023), OECD Survey on Public Policy Evaluation, results for 31 countries.

Growing use of gender budgeting and green budgeting in OECD countries



Source: Gender Budgeting: OECD (2022), OECD Survey on Gender Budgeting, results for 38 countries, Q1; OECD (2018), OECD Budget Practices and Procedures Survey, results for 34 countries; OECD (2016), OECD Survey of Gender Budgeting, results for 34 countries; Green Budgeting: OECD (2022), OECD Survey on Green Budgeting, results for 36 countries, Q1; OECD (2020), OECD and European Commission – Joint Survey on Emerging Green Practices, results for 35 countries.

7

Consider All Forms of Expenditure

All forms of expenditure should be considered on an equal footing in the annual budget process.

This includes appropriations authorized in the annual budget, expenditure authorised in standing legislation ("entitlements," or "compulsory" expenditure) and expenditures authorized in tax legislation ("tax expenditures").

In addition, governments carry out significant activity through loans, guarantees and other contingent liabilities that will – or may – have future budgetary implications.

Such activities often carry a low rate of interest and/or default risk, which should be made explicit. These subsidies should be estimated upfront at the time of granting the loan and guarantees, and fully funded when granted within established expenditure ceilings.

Governments should monitor and manage their portfolio of loans and guarantees, as well as relevant fiscal risks that do not meet the recognition criteria of a contingent liability, with a view to the long-term sustainability of public finances.

Type of fiscal risks identified and quantified in the budget documentation and/or fiscal risks report in OECD countries

	Identification	Quantification
Government guarantees risks	26	20
Debt risks	24	17
Pension net liability risks	21	15
Financial sector risks	19	8
Geopolitical risks	18	4
Climate risks	18	7
Pandemic risks	17	10
Government policy or programme risks	16	8
Litigation risks	16	10
State-owned enterprise (SOE) risks	12	6
Natural disaster risks	11	4
Balance sheet risks	10	6
Public Private Partnership (PPP) risks	10	6
Subnational government risks	10	6

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q34.

8

Lines Ministries as Partners

Budget reforms, such as top-down expenditure ceilings, involve a change in accountabilities and culture and a shift in how the CBA and line ministries work together.

An effective budgeting and financial management function in line ministries is critical to allow them to carry out their role. Line ministries should be viewed as partners in the budget process.

The CBA should nurture this relationship at all stages. The finance function should be the principal interlocutor that the CBA has with a line ministry, rather than engaging directly with policy units in line ministries.

The finance function should be responsible for the coordination of all budget-related matters in the line ministry. It has a fundamental role to play in identifying and coordinating the reallocation of resources in order to meet the ministry's expenditure ceiling and to fund new policy initiatives.

The finance function in a line ministry should have in place systems to ensure budget execution in line with a monthly disbursement schedule (apportionment plan) established by the CBA.

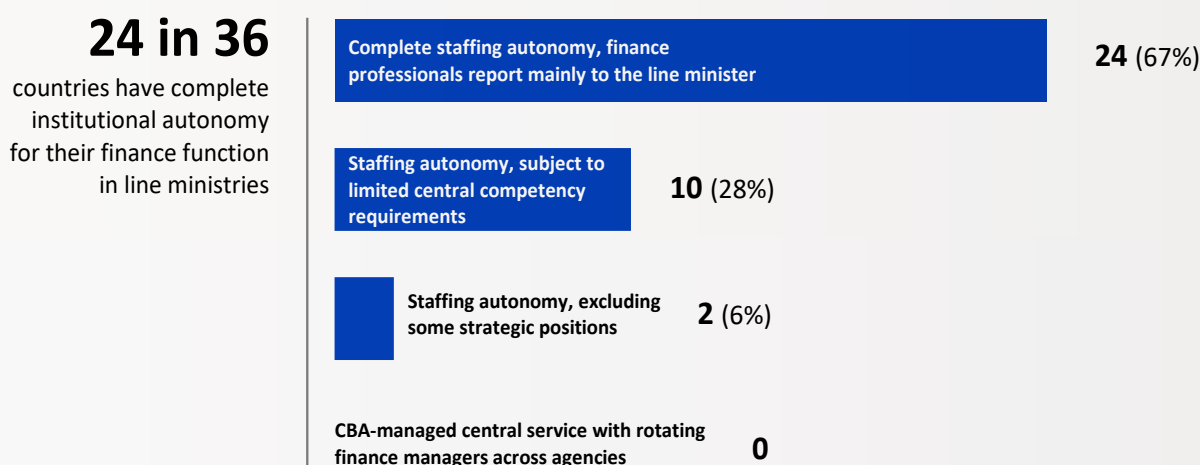
Any unanticipated policy developments with spending implications should be highlighted in a timely manner and remedial action adopted as necessary.

Roles and responsibilities of line ministries' finance function in OECD countries

	Number of OECD countries	Percentage of OECD countries
Coordinates and monitors budget requests in line with CBA instructions	34	94 %
Monitors budget execution and suggests reallocation of resources	33	92 %
Controls compliance of spending with relevant legislation	33	92 %
Provides reporting in line with centrally-defined standards	32	89 %
Principal interlocutor for the CBA	31	86 %
Collects performance data and reports on performance results	24	67 %
Coordinates and monitors multi-annual expenditure baseline updates	21	58 %

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q29.

Level of institutional autonomy of the line ministries' finance function in OECD countries



Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q30.

9

Budget Transparency

All revenues and expenditures, assets and liabilities should be reported in a comprehensive, timely, routine and reliable manner.

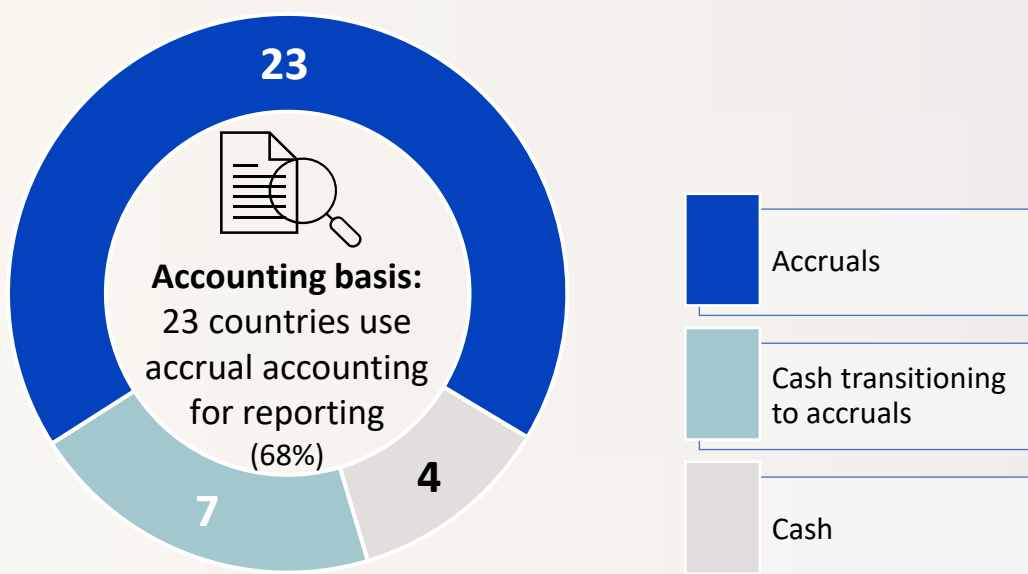
Financial report should be produced in accordance with generally accepted accounting practices and the annual financial statements of the government should be audited in accordance with generally accepted auditing practices.

The presentation of information should take account of the needs of the users and be presented in an accessible format. In particular, machine-readable and open-source formats but also more sophisticated tools such as digital financial reporting facilitate access and analysis.

Digital technologies and advanced analytics allow users to delve into the detail of fiscal reports, to structure their own queries, and to generate their own reports and infographics.

The CBA should actively engage in activities to promote greater budget understanding by key stakeholders and the public.

Accounting basis used for financial reports in OECD countries



Source: OECD (2022), OECD Survey on Financial Management and Reporting, results for 34 countries, Q1.

Means of promoting greater budget understanding by key stakeholders and the public in OECD countries



Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q39.

10

Effective Budget Oversight

Oversight of the budget process by parliaments and the public is fundamental to democratic governance and trust in government.

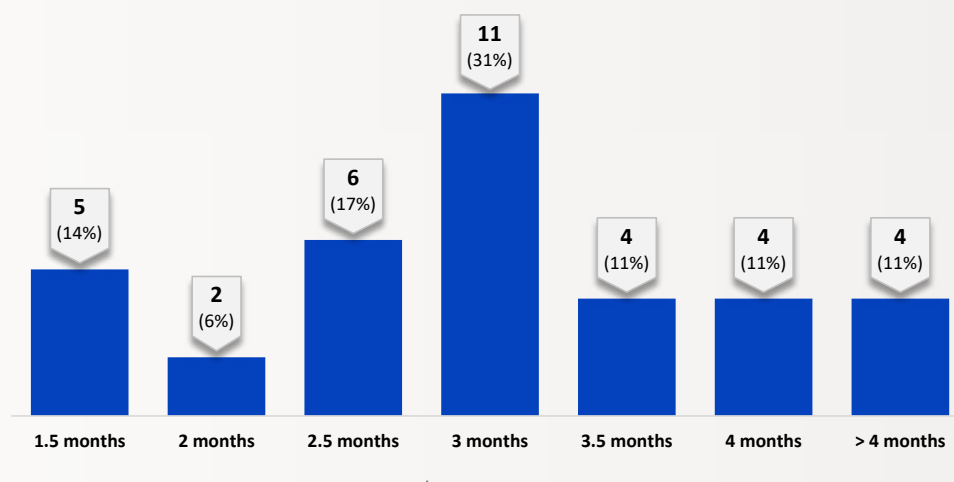
Parliaments should provide for an inclusive, participative and realistic debate on budgetary choices by offering key opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle.

The Parliament must have timely access to all the budget information it needs to be able to properly scrutinise and review the proposed government spending.

Engagement of citizens in the budgetary decision processes should be actively encouraged, facilitating feedback and debate on key policy priorities and trade-offs.

Independent fiscal institutions (independent parliamentary budget offices and fiscal councils) can play a significant role in enhancing parliamentary oversight, and raising the quality of debate e.g. public finance, by providing objective assessments of the government's proposals and promoting greater transparency and accountability.

Time available for legislative debate of the budget proposal in OECD countries



Note: Where timelines differ for the approval of tax and expenditure policy measures, the timeline for the approval of expenditure measures is shown. In seven countries, final approval of the budget by the Legislature is provided after the start of the fiscal year.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q1.

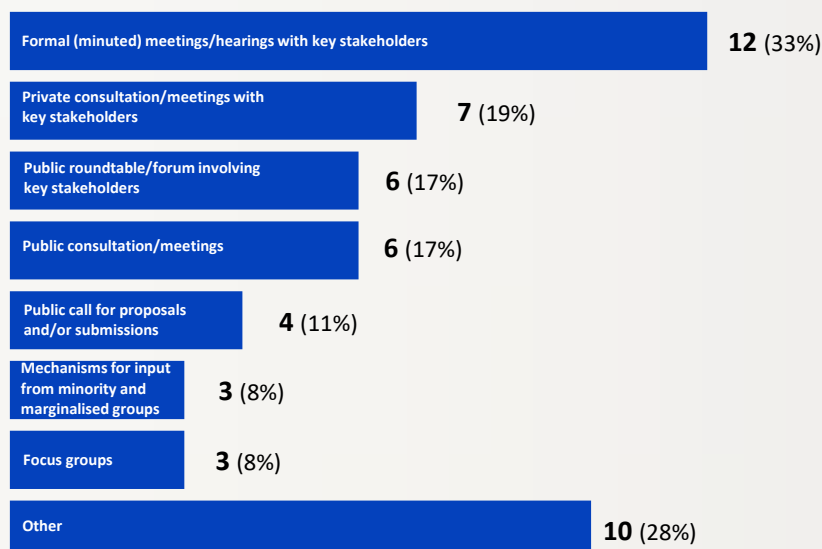
23 in 36

countries allow a minimum of three months for the parliament to undertake in-depth scrutiny

Public consultation and engagement mechanisms in the national budget process in OECD countries

Key stakeholders

are typically addressed in more countries than the general public during public consultation and engagement mechanisms



Note: Examples of other consultation and engagement mechanisms include activities by the legislative branch, line ministries, and other local bodies related to their policy areas. Additionally, these other mechanisms involve citizen participation in setting medium-term priorities.

Source: OECD (2023), OECD SBO Survey on Budget Frameworks, results for 36 countries, Q38.

Methodological note

Data, results and figures presented in this publication are from country responses to a set of surveys distributed to all 38 OECD countries. The 2023 OECD SBO Survey on Budget Frameworks was the central survey; and further surveys addressed the various Working Parties and Subgroups of the Senior Budget Officials (SBO) Committee and their respective areas of expertise (namely Financial Management and Reporting, Performance Budgeting, Spending Reviews, Public Policy Evaluation, Green Budgeting, and Gender Budgeting).

The data draw heavily upon self-reporting from governments, representing each country's own assessment of its current practices and procedures in central/federal government. The respondents were predominantly senior officials from central budget authorities, and accounting and finance departments.

Country coverage

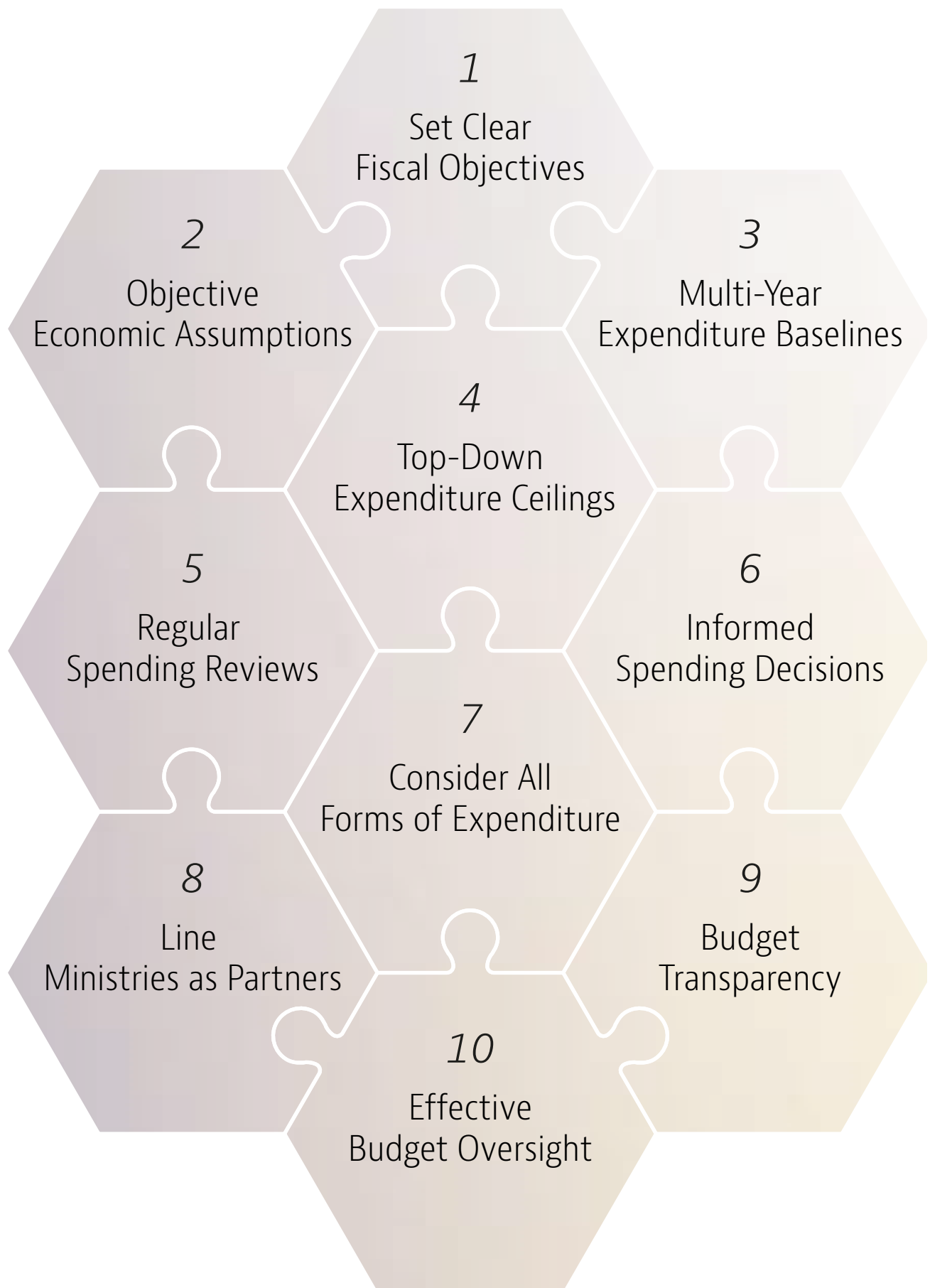
This publication includes data for all 38 OECD countries based on available information (May 2024).

Overview of surveys and country responses

	2023 OECD SBO Survey on Budget Frameworks	2022 OECD Survey on Financial Management and Reporting	2023 OECD Performance Budgeting Survey	2023 OECD Spending Review Survey	2023 OECD Survey on Public Policy Evaluation	2022 OECD Survey on Green Budgeting	2022 OECD Survey on Gender Budgeting
Australia	x	x	x	x	x	x	x
Austria	x	x	x	x	x	x	x
Belgium	x	x	x	x	x	x	x
Canada	x	x	x	x	x	x	x
Chile	x	x	x	x	x	x	x
Colombia	x			x	x	x	x
Costa Rica	x	x	x	x	x		x
Czechia	x	x	x	x	x	x	x
Denmark	x	x	x	x	x	x	x
Estonia	x	x	x	x	x	x	x

	2023 OECD SBO Survey on Budget Frameworks	2022 OECD Survey on Financial Management and Reporting	2023 OECD Performance Budgeting Survey	2023 OECD Spending Review Survey	2023 OECD Survey on Public Policy Evaluation	2022 OECD Survey on Green Budgeting	2022 OECD Survey on Gender Budgeting
Finland	x	x	x	x		x	x
France	x	x	x	x	x	x	x
Germany	x	x	x	x		x	x
Greece	x	x	x	x	x	x	Z
Hungary	x	x	x	x	x	x	x
Iceland	x	x	x	x	x	x	x
Ireland	x	x		x	x	x	x
Israel	x					x	x
Italy	x	x		x	x	x	x
Japan	x	x			x	x	x
Korea	x	x	x	x		x	x
Latvia	x	x	x	x	x	x	x
Lithuania		x	x	x	x	x	x
Luxembourg	x	x	x	x	x	x	x
Mexico			x	x	x	x	x
Netherlands	x	x	x	x	x	x	x
New Zealand	x	x	x	x	x	x	x
Norway	x	x	x	x	x	x	x
Poland	x	x	x	x	x	x	x
Portugal	x	x	x	x	x	x	x
Slovak Republic	x	x	x	x		x	x
Slovenia	x		x	x			x
Spain	x	x	x	x	x	x	x
Sweden	x	x	x	x	x	x	x
Switzerland	x	x	x	x	x	x	x
Türkiye	x	x	x			x	x
United Kingdom	x	x	x	x	x	x	x
United States	x	x	x	x	x	x	x
Total	36	34	33	35	31	36	38

OECD Spending Better Framework



www.oecd.org/gov/budgeting/



