Executive budget flexibility

A feature of budget reforms in many OECD countries is the relaxing of input controls by the central budget authority to give government organisations greater flexibility and autonomy to achieve their objectives efficiently and effectively. It is based upon the premise that heads of individual government organisations are the best positioned to achieve their policy and programme objectives (let managers manage). Moreover, even with a sound budget formulation process, economic assumptions can change, input prices can fluctuate and evolving political priorities can call for the reallocation of budgeted resources. Greater flexibility for line managers permits them to adjust spending according to such changing conditions.

On the other hand, if this authority is unreserved and unchecked, it can undermine fiscal sustainability. Potential risks include opportunities for the abuse of power by government managers, increased government deficits and weakened efficiency. Too much flexibility may also undermine the intent of legislators' and appropriations, as resources could be diverted away from their priorities. Therefore, although models vary, the majority of OECD member countries adopt some balance between top-down directives and oversight for performance with varying degrees of ministerial flexibility. The Central Budget Authority sets the top-down budget constraints, based on political priorities and medium-term expenditure considerations, while line ministries, agencies and other public organisations are given responsibility for the allocation and use of those funds to meet agreed-upon programme objectives. With such freedom however also comes greater need for accountability and the use of performance management (see indicator on performance budgeting). This can enhance efficiency and effectiveness in light of new priorities, new circumstances and new knowledge. It also strengthens the incentive for politicians to focus on outputs and outcomes rather than inputs alone.

A key aspect of executive budget flexibility is the use of lump sum appropriations, which provides managers with more flexibility to allocate funds across and within programmes as they see fit. The majority of member countries place sub-limits on these lump sums, most commonly on spending on wages and compensation of employees. Similarly, a limited number of line item appropriations in the approved budget provide the executive with more flexibility. Only a quarter of OECD member countries have fewer than 300 line items. The majority of CBAs in member countries also permit line ministries and agencies to carry over unspent appropriations from one year to the next, albeit with restrictions such as complying with thresholds, needing to request approval or both. Generally speaking there is greater flexibility with regards to investment spending over operational expenditure since capital projects often span several years. In addition, some countries permit the executive to borrow against future appropriations. Of the seven countries that follow this practice, however, all have in place a threshold limiting the amount that can be overspent in the current fiscal year. The executive may also have permission to increase or cut spending during the budget year without prior legislative approval. This additional flexibility is often granted based on the notion that it can facilitate the optimal use of public resources and provide incentives to improve the efficiency of public expenditure.

Methodology and definitions

Data refer to 2012 and draw upon country responses to questions from the 2012 OECD Survey on Budgeting Practices and Procedures. Survey respondents were predominately senior budget officials in OECD member countries. Responses represent the countries' own assessments of current practices and procedures. Data refer only to central/federal governments and exclude budgeting practices at state/local levels.

Further reading

OECD (2013, forthcoming), *Budgeting Practices and Procedures in OECD Countries*, OECD Publishing, Paris.

Table notes

4.5: Data are not available for Iceland. In Germany line ministries may borrow against future appropriations provided that the following fiscal year's budget contains an item of expenditure having the same purpose, and that there is an intention to balance the cash position in the current fiscal year. If additional spending cannot be treated as advance expenditure, it must be treated as excess expenditure. In Spain, line ministries do not receive lump-sum appropriations, however they may, within limits, reallocate funds. In Finland, Korea and Slovenia, only certain kinds of expenditures may be carried over to the following fiscal year. In Australia, annual appropriations do not lapse at the end of the financial year and may be drawn against to the limit of the available appropriation, generally, annual appropriations are available until they are spent, reduced in accordance with the reduction provisions in the annual Appropriation Acts, or the relevant annual Appropriation Act is repealed by another Act. In the United States, data apply to large departments/line ministries only. In Turkey some appropriations can be exceptionally carried over, this is determined on a yearly basis in Annual Central Government Budget Law and the authority to decide on the carry over is given to the Minister of Finance

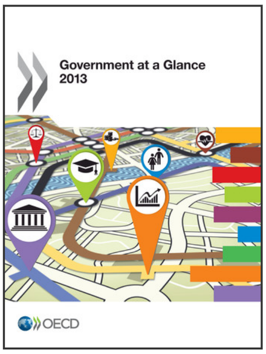
Information on data for Israel: *http://dx.doi.org/10.1787/888932315602*.

4.5. Ability of line ministries to carry over unused funds and borrow against future appropriations (2012)

	Number of sub-limits on line ministries' lump sum appropriations	Ability of line ministries to borrow against future appropriations		Ability of line ministries to carry over unused funds or appropriations from one year to the next	
		Operating expenditure	Investment expenditure	Operating expenditure	Investment expenditure
Australia	0	❍	❍	x	x
Austria	x (no lump sums)	❍	❍	●	●
Belgium	2	❍	❍	❍	❍
Canada	2	❍	❍	■	■
Chile	3 or more	❍	❍	❍	❍
Czech Republic	3 or more	❍	❍	●	●
Denmark	1	■	❍	●	●
Estonia	1	❍	❍	■	●
Finland	0	❍	❍	●	●
France	0	❍	❍	■	■
Germany	x (no lump sums)	■	■	❍	❍
Greece	3 or more	❍	❍	❍	❍
Hungary	1	❍	■	●	●
Ireland	0	❍	❍	❍	■
Israel	3 or more	❍	❍	●	●
Italy	1	❍	■	❍	■
Japan	0	❍	❍	●	●
Korea	3 or more	❍	❍	●	●
Luxembourg	1	❍	■	❍	●
Mexico	3 or more	❍	❍	❍	❍
Netherlands	0	❍	❍	■	■
New Zealand	0	■	■	■	■
Norway	0	❍	❍	■	■
Poland	0	❍	❍	❍	❍
Portugal	1	❍	❍	●	●
Slovak Republic	2	❍	❍	❍	●
Slovenia	1	❍	❍	●	●
Spain	x (no lump sums)	❍	❍	■	■
Sweden	0	■	■	■	■
Switzerland	0	❍	❍	●	●
Turkey	x (no lump sums)	❍	❍	❍	❍
United Kingdom	x (no lump sums)	❍	❍	■	■
United States	3 or more	❍	❍	■	■
Russian Federation	3 or more	■	■	■	●
OECD total					
● Yes, without threshold		0	0	11	14
■ Yes, up to certain threshold		4	6	10	11
❍ No, not permitted		29	27	11	7

Source: 2012 OECD Survey on Budgeting Practices and Procedures.

StatLink http://dx.doi.org/10.1787/888932943438



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