

## VII. BUDGET PRACTICES AND PROCEDURES

### 21. Executive budget flexibility

In order to address changing and unforeseen circumstances, the executive, ministries and agencies may need to have some flexibility to be able to adapt spending during the implementation of the budget. 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. For example, many countries have recently adjusted spending mid-way through the budget year to address unforeseen circumstances related to the financial crisis.

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. In addition, some countries permit the executive to borrow against future appropriations or use savings from efficiency gains for other purposes. 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.

However, 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. Thus, any move to greater flexibility warrants clear oversight in order to hold managers accountable. While the indicators capture the procedural flexibility of the government to reallocate budget resources, they do not measure its impact on the provision of government goods and services, the internal management capacity to recognise when reallocations are necessary, or the soundness of decision-making processes that result in budget reallocations.

Among OECD member countries, there is a large range in the level and types of flexibility granted to the executive to use budgeted funds for different purposes. For example, the majority of countries allow line ministries/agencies to carry over unspent appropriations for operating expenditures or investments from one fiscal year to another, most often with some restrictions, such as the prior approval of the legislature or the executive. It is more common for countries to allow line ministries/agencies to carry over unspent funds for investments rather than funds for operating expenses.

#### Methodology and definitions

The indicators draw upon country responses to questions in the OECD International Budget Practices and Procedures Database collected via a survey during the first half of 2007, and refer to the central level of government. Survey respondents were senior budget officials. Responses represent the countries' own assessments of current practices and procedures.

The index looks at the flexibility of the executive to make changes to the budget during execution. Variables include (weights in parentheses): the extent to which lump sum appropriations are used (6.3%); the number of line items in the budget (6.3%); agencies' ability to carry over unused budget allocations between years (18.8%), borrow against future appropriations (18.8%), reallocate between line items (6.3%) and keep efficiency gains (6.3%); the executive's ability to increase spending during budget execution (25%) without prior legislative approval (6.3%) and its ability to decrease spending during budget execution (6.3%). The index ranges between 0 (no flexibility) and 1 (high level of flexibility with fewer restrictions). See Annex C for a description of the methodology used to construct the index. The variables comprising the indexes and their relative importance are based on expert judgements. They are presented with the purpose of furthering discussion, and consequently may evolve over time.

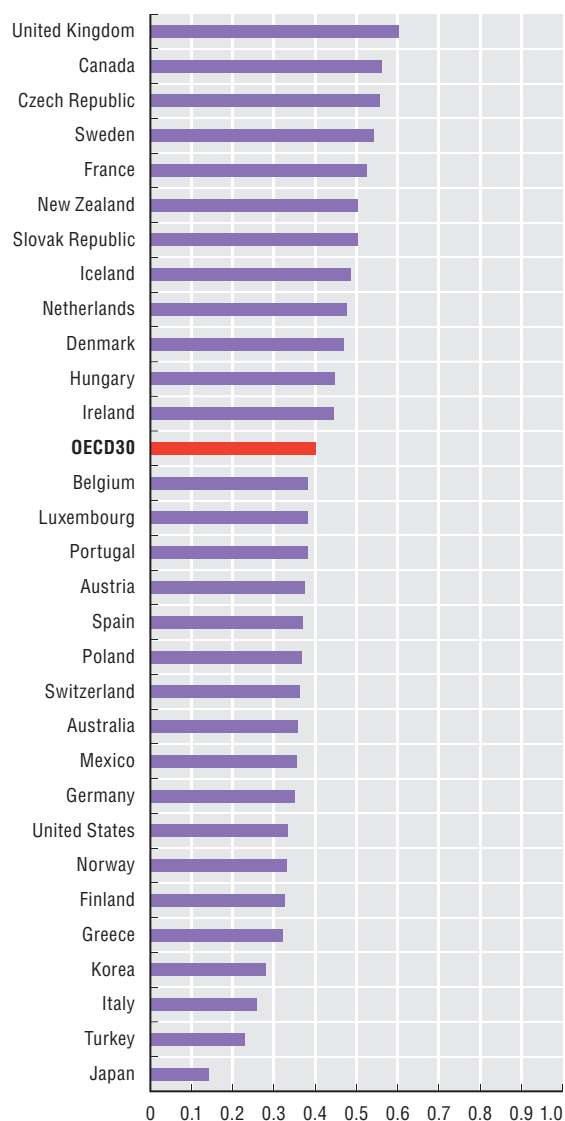
#### Further reading

OECD (Forthcoming), *Budgeting Practices and Procedures in OECD Countries*, OECD, Paris.

#### Note

21.2: Based on Q.54 "Can ministers carry over unused funds or appropriations from one year to another?".

21.1 Executive budget flexibility (2007)



21.2 Ability of line ministries in central government to carry over unused funds (2007)

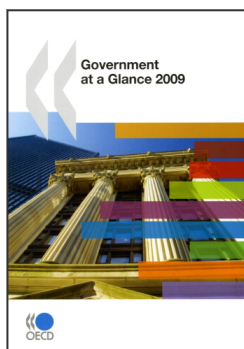
Country	Operating expenditure	Investment expenditure
Australia	●	●
Austria	□ ■	□ ■
Belgium	○	○
Canada	●	■
Czech Republic	●	●
Denmark	□	□
Finland	●	●
France	●	●
Germany	■	■
Greece	○	○
Hungary	●	●
Iceland	□ ■	□ ■
Ireland	□ ■	□ ■
Italy	○	●
Japan	□ ■	□ ■
Korea	●	●
Luxembourg	○	●
Mexico	○	○
Netherlands	●	●
New Zealand	■	■
Norway	□	□
Poland	●	●
Portugal	■	■
Slovak Republic	●	●
Spain	●	●
Sweden	■	■
Switzerland	●	●
Turkey	■	■
United Kingdom	■	■
United States	●	●
Approval not required	13	14
Executive approval	10	11
Legislative approval	6	6
Not permitted	5	3

- Approval not required.
- Executive approval.
- Legislative approval.
- Not permitted.

Note: This index looks at the different levels of flexibility provided to the executive during budget execution. However, it does not measure whether this flexibility is used effectively or appropriately.

Source: OECD (2007), OECD International Budget Practices and Procedures Database, [www.oecd.org/gov/budget/database](http://www.oecd.org/gov/budget/database).

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