



Australia is one of several developed nations that have incorporated the language of Medium Term Expenditure Frameworks into the development of their own financial planning processes.

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Success in Budget Planning: Lessons from the Medium Term Expenditure Framework Experience

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The mantra of planning is like wallpaper; it's always there in the background. So, why have it in the first place? This question returns incessantly, on a cyclical basis, at organizations trying to provide high quality budgeting and planning discipline around the world. This is not merely a matter of developing states being

forced by international entities such as the World Bank and the International Monetary Fund (IMF) to adopt western practice in return for a continued stream of aid money. Further, there is now ample evidence of how advanced governments have fared in their own efforts to instill great financial discipline into their budgetary

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and planning processes. The same issues apply to governments at all levels. The application to the municipal sector is clear.

This article will look at the international experience in attempts to implement MTEF, the medium term expenditure framework, and the lessons that might apply to municipal budgetary governance in our own environment. I make no claim that this experience bears directly upon the efforts of municipal leaders in Canada to improve budgetary and planning discipline. Rather, the lessons are illustrative and potentially a source of curiosity leading to further inquiry. Further, they show that these efforts are hardly isolated and reflect a continuous challenge within governments at all levels, one that may never be over. It would also seem that the lessons to be learned from this experience do indeed bear upon medium and long-term planning in the municipal context.

I.

THE MTEF IN THE DEVELOPING WORLD

The MTEF is a fiscal planning framework that stresses certain key elements of the planning process to assure its stability, a strong linkage of inputs to anticipate outcomes, full budgetary transparency, and a unity in the cycle such that the legislative authority has both the information and capacity to direct the outcomes.¹ The MTEF was originally intended to guide emerging economies in gaining some form of control over their budgets and in equipping them to plan allocation of resources with some certainty and accountability. The objectives are hardly restricted, however, to developing countries. Richard Hughes, an economist at IMF, outlines them as being designed to:

1. Instill greater discipline over advance commitments of public money by constraining budget appropriation and execution in future years to levels consistent with the government's medium-term fiscal and sectoral objectives;
2. Facilitate a more strategic prioritization of expenditure by abstracting from the immediate pressures and legal constraints that impinge upon the annual budget process; and,
3. Encourage more efficient inter-temporal planning of expenditure by providing greater transparency to budget holders about their likely future resources.²

Organizations such as the World Bank linked the adoption of the MTEF to continued developmental assistance. It became one of the touchstones of strengthening budgeting and planning capacity. However, the framework was also taken up by developed countries. As with many such frameworks, it also became one of the 'have to haves' for any government seeking sustained international assistance. Like the mantra of so many good ideas, references to MTEF can be found scattered through most budgetary documents. Subsequent research clearly indicates, however, that such obvious tipping of the hat to the sought after language of MTEF does not necessarily bear up at the implementation phase.³ However, that being said, many countries, both developed and developing, have

adopted a form of MTEF.

Dr. Salvatore Schiavo-Campo of the World Bank has suggested that, while there have been some serious efforts to implement MTEF in developed countries, the overall picture is unclear. He has pointed out that many countries have treated this as a top-down exercise, imposed by specialized units of the Ministry of Finance, often with few real results but with ample paper to show support. Often implementation was equated with a presidential announcement, accompanying a 'big bang' approach, creating a 'Potemkin Village' effect in which the façade is excellent, but no real change has taken place.⁴

II.

MTEFs IN THE DEVELOPED WORLD

A number of countries have explicitly adopted the language of MTEFs in establishing their financial planning frameworks, most notably, the United Kingdom, Finland, Australia and Netherlands. Stepping back, however, we can readily see that the adoption of such a framework has many parallels in Canada at all levels of government. MTEF is really just one way to articulate a formalized and integrated financial planning process designed to instill fiscal discipline, predictability, and greater certainty with respect to predicted outcomes. They all seem to have some common features:

- Often, they are bred of financial adversity.
- There was the need for greater transparency of the budget process.
- A form of budgetary discipline was needed.
- Greater information was demanded by the stakeholders just as it was becoming more readily available through emerging technologies.
- Greater rigor was demanded in the capacity to weigh priorities.

Some of the key features include systematic use of a rolling multi-year perspective to frame the annual budget; distinction between ongoing and new expenditure programs under existing and new policies; and, an integral connection with a medium-term fiscal framework and a macroeconomic framework, consistent internally, and with policy objectives and resources.

III.

LESSONS FOR LOCAL GOVERNMENTS

Canadian municipalities are all engaged in various stages of financial planning. They have evolved various frameworks to stabilize their capacity to plan, to improve the quality of their decision making and to increase the engagement of legislative decision-makers and stakeholders in the process. In fact, they can be proud of the work that has been done to date. However, there's always room for improvement. Some of the conclusions emerging out of several decades' efforts to establish a stable financial planning and management framework, such as the MTEF, could readily support

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improvement at home. In reviewing the research to date and looking at the Canadian municipal experience, here are some of the ideas that seem to translate well into thinking about budgeting and financial management into the future.

DESIGN FOR IMPACT, NOT MODEL ELEGANCE

The design of a fiscal framework has to meet the needs of the parties involved. Left up to zealots or, even worse, academics, it could readily reach over-design very quickly. Characteristics of over-design are excessive detail, complexity at the cost of clarity, and language that challenges the CIETTMM (Can I explain this to my mother?) test. As Richard Hughes points out, there are three conflicting objectives that must be balanced in designing an effective planning framework: time horizon, coverage, and detail. Add to this the question of frequency of revision. Part of the sin of model elegance over model utility is that its operators love to pull it out and revise, revise, revise. The danger here is instability and a lack of discipline about actually doing something with the outcomes of the planning process.

CONFIRM AND RECONFIRM POLITICAL COMMITMENT

In both the developing and developed world, the greatest commitment to a disciplined approach to fiscal planning comes when budgets have to be cut or some other form of fiscal adversity has to be confronted. Such times permit a greater sense of collegial action to achieve a common goal. Sustaining that enthusiasm and work ethic over a timeframe beyond the short-term, and through a period of transition in both the governing bodies and in senior administration, is not easy. Some form of useful institutionalization is needed, be it through a document or through an explicit set of steps in governance such as annual budgetary review processes. However, experience has taught that no framework, be it explicit or implicit, will remain the same for a very long time. Therefore, steps have to be taken to ensure that, as transitions take place, the framework is explicitly outlined to those who are new to the process. This then gives them the capacity to either affirm their support or alter the process to suit their needs.

START WITH A CREDIBLE ANNUAL BUDGET AND RELIABLE PROJECTIONS

Credibility in budgeting is key to building confidence in the planning system as a whole. Much has been made of what has been criticized as ‘excessive caution’ in some Canadian public sector budget projections. Better caution than either excessive optimism or excessive pessimism, as neither is reliable. It is always smart to inform users of the level of accuracy in the projections. Never let the user simply declare the results of budgets forecasts off target or inaccurate. Make sure there is a sound basis for comparison and a reasonable explanation for the variance from forecast. In this way, both unanticipated factors and simple miscalculations are properly exposed.

HAVE THE RULES AND PROCEDURES TO ESTABLISH CREDIBILITY

The research is unambiguous: the method of setting projections

and expenditure plans is as important as the numbers themselves. The credibility of these numbers relies on the method and the trustworthiness of the process. It is also built on the predictability of the process. This means that governments have to establish planning systems and adhere to them. These systems have to be inclusive so that all players see the numbers as valid and useful, even if they disagree on the resulting actions and plans. Governments have to avoid dealing with major cost challenges outside this process, unless driven to do so by sufficiently compelling circumstances. Off the table deals undermine the credibility of any planning and allocation system. Further, sound financial management practices have to be in place to ensure that there is no waste, be that through side allocation, misallocation, or extra-legal uses. This means a strong central budget control system, not necessarily a centralized one, except where it counts.

PRUDENT FORECASTING

The countries looked at in this research that have demonstrated some success in building credible expenditure forecasting systems, such as MTEF, have all paid a lot of attention to the quality of their forecasting. They have avoided exaggeration, showed caution in their numbers, and readily adapted as circumstances have dictated. Even though we have seen this approach criticized in Canada as underplaying possible surpluses, such pleasant surprises certainly trump unanticipated deficits. Over time, however, such annual surprises will themselves destabilize the credibility of the process. Therefore, prudence should trump caution, as experience should make it possible to achieve more accurate predictions. Large and persistent under-forecasting of projected financial positions will prove to be counterproductive.

Canadian municipalities have a strong record of prudence. They also have proven how well they can present financial information for the use of their political leaders and their citizens. They have a lot to teach the world. This article is meant to reflect that there is a huge potential for a dialogue on good financial planning, with lessons to be shared from all parties. We are not alone.



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