

Capital budgeting and infrastructure

A sound capital budgeting framework ensures the alignment of the budget with national strategic priorities in a cost-effective and coherent manner. The OECD Principles of Budgetary Governance highlight: 1) the grounding of capital investment plans in objective appraisal of economic capacity gaps, infrastructural development needs and sectoral/social priorities; 2) the prudent assessment of costs and benefits of such investments, affordability, relative priority among various projects, and overall value for money; 3) the evaluation of investment decisions independently of the specific financing mechanism; and 4) the development and implementation of a national framework for supporting public investment.

There are several possibilities for including capital expenditures in the budget process ranging from full integration with current expenditures to having a completely separate budget. Each of these has advantages and disadvantages. While full integration can improve planning, facilitate co-ordination and increase flexibility, separated budgets can ensure that mandatory items such as entitlements do not crowd out discretionary items such as capital investment (Posner, Ryu and Tkachenko, 2009). According to the latest available data, 74% of surveyed countries reported that line ministers submit their capital and current expenditure in an integrated way to the central budget authority (CBA). In the remaining 26%, the submission of capital budget requests and the approval by the CBA is fully separated from the process that decides on current expenditures.

Likewise, there have been improvements in strategic, long-term planning, with more than half of OECD countries reporting having an overall, long-term strategic infrastructure vision that cuts across all sectors. This is a new practice in some countries such as Luxembourg and Norway. Motivations for long-term strategies differ across countries and heavily depend on the strategic priorities and economic conditions. Transport bottlenecks, demographic trends, and regional development imbalances are the most common drivers of strategic infrastructure plans in surveyed OECD countries. A good practice, currently implemented by countries such as Ireland and Norway is the identification of shortlists of priority projects that can form the basis of “project pipeline planning” and communication.

Infrastructure projects are usually built and used over long periods. Although the preparation and construction phases inevitably require the majority of resources, responsibility for the monitoring and evaluation of projects over their lifespan needs to be clearly allocated. To do so, in most countries (69%), there is a formal policy ensuring that the relevant line ministry or agency conducts performance assessment of each project. From these, in 31% of surveyed countries, the policy is defined and managed by the central

government, while in 38% of countries, there is a general mandate, but it is the line department's responsibility to decide upon such policies.

Methodology and definitions

Data are drawn from the 2018 OECD Survey of Capital Budgeting and Infrastructure Governance. The survey was conducted at the beginning of 2018, encompassing 26 OECD country responses. Respondents were predominantly senior officials in the central/federal ministry of finance, as well as in other relevant line ministries.

The governance of infrastructure encompasses a range of processes, tools and norms of interaction, decision making and monitoring used by governments and their counterparts providing infrastructure services. It thus relates to the interactions between government institutions internally, as well as their interactions with private sector users and citizens.

Value for money (VfM) can be defined as what a government judges to be an optimal combination of quantity, quality, features and price (i.e. cost), expected over the whole of the project's lifetime.

Further reading

OECD (2019), *Budgeting and Public Expenditures in OECD Countries 2019*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264307957-en>.

OECD (2017), *Getting Infrastructure Right: A Framework for Better Governance*, OECD Publishing, Paris, <https://doi.org/10.1787/9789264272453-en>.

Posner, P., S. Ryu and A. Tkachenko (2009), “Public-private partnerships: The relevance of budgeting”, *OECD Journal on Budgeting*, Vol. 9/1, <https://doi.org/10.1787/budget-v9-art3-en>.

Figure notes

Data for Belgium, Canada, Finland, Iceland, Korea, Latvia, Poland and the United States are not available. On data for Israel, see <http://doi.org/10.1787/888932315602>. Data for Lithuania were not collected.

5.1. In Germany capital and current expenditures are outlined separately in the budget, but negotiated and decided in an integrated way.

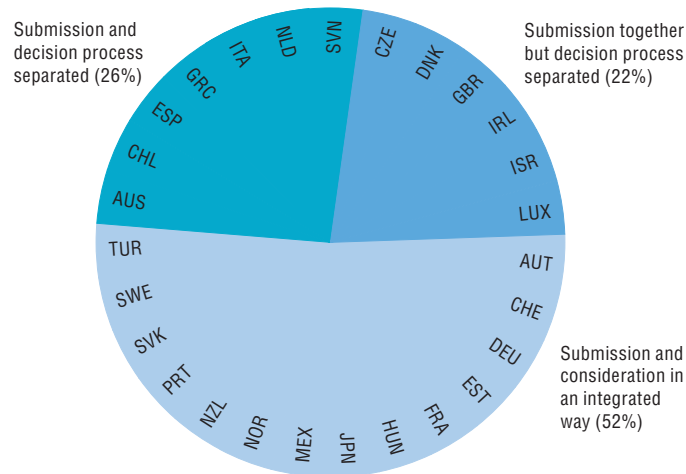
5.2. The Slovak Republic indicated that the Office of the Deputy Prime Minister for Investment and Informatization is responsible for preparing the National Investment Plan.

5.3. Data for Portugal are not available for this question.

5. BUDGETING PRACTICES AND PROCEDURES

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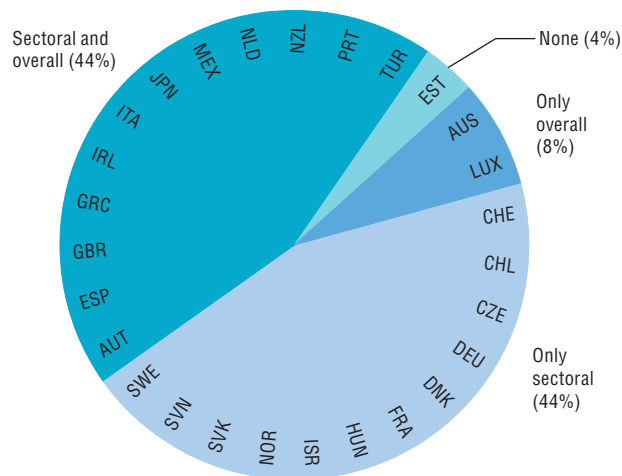
5.1. Distinction between capital and current expenditure requests, 2018



Source: OECD (2018), OECD Survey of Capital Budgeting and Infrastructure Governance.

StatLink <https://doi.org/10.1787/888934032282>

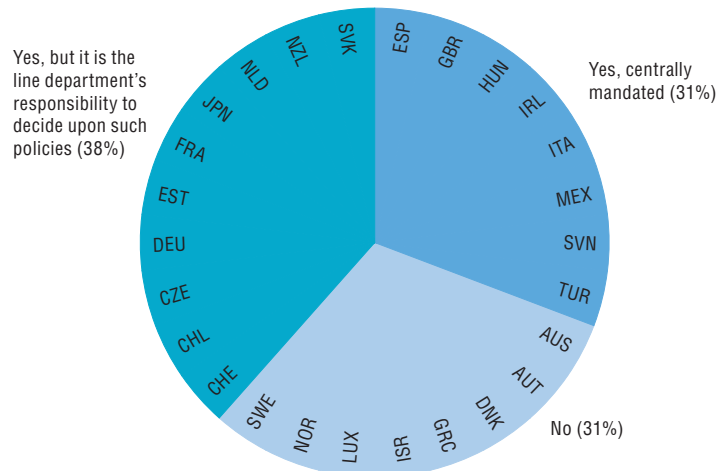
5.2. Existence of long-term strategic infrastructure plans, 2018



Source: OECD (2018), OECD Survey of Capital Budgeting and Infrastructure Governance.

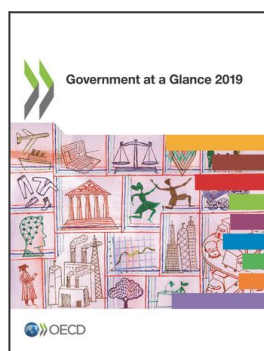
StatLink <https://doi.org/10.1787/888934032301>

5.3. Formal policy for the implementation of a performance assessment of each project, 2018



Source: OECD (2018), OECD Survey of Capital Budgeting and Infrastructure Governance.

StatLink <https://doi.org/10.1787/888934032320>



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