Wales Centre for Public Policy
Canolfan Polisi Cyhoeddus Cymru

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Medium-term fiscal and budget frameworks: an overview and international examples

Introduction

In recent years, governments worldwide have been contending with a complex array of fiscal challenges. These range from nearer-term fiscal shocks, such as those triggered by the Covid-19 pandemic and surging global inflation following Russia's invasion of Ukraine, to mounting pressures on public spending driven by longer-term factors like population ageing and the climate transition. This combination of record levels of debt and growing demands on public spending has created a renewed emphasis on fiscal sustainability for many countries, as they strive to move beyond a period dominated by the need to respond to tremendous economic, revenue, and spending shocks; grapple with longer term trends and pressures; and return to a stable and purposeful medium-term fiscal path.

In this context, medium-term fiscal and budget frameworks are receiving renewed attention as key tools for aligning fiscal and budgetary decisions over the medium term. Long recognised as playing an essential role in fiscal policymaking, medium-term fiscal and budget frameworks can be understood as a set of interconnected public financial management (PFM) processes, systems and institutional arrangements to extend the horizon of budgetary and fiscal policymaking beyond the annual budget calendar, imparting a medium-term perspective and incorporating consideration of the future fiscal implications of government policies and programmes. The principal motivation for the introduction of this multi-year focus is to address the challenge to the maintenance of fiscal discipline created by the short-termism of traditional annual budgeting (Harris et al, 2013). Making tax and expenditure decisions solely with a view to their fiscal impact over a 12-month horizon creates a constant risk that decisions will be made which are unsustainable in the medium and longer terms. Medium-term budgeting seeks to tackle this problem by ensuring that all tax and expenditure decisions are made with a full understanding of their medium-term fiscal implications, in the context of a clear aggregate fiscal policy.

Medium-term fiscal and budget frameworks have the further objective of providing greater medium-term stability in budget allocations to government departments as well as to support policy agendas with medium- to long-term implications, such as public investment for the net zero transition.This greater funding stability makes it easier for departments to plan multi-year expenditures and thereby supports efficient and effective delivery.

Medium-term frameworks have the added advantage of improving the prioritisation of government expenditure by helping to tackle the tendency of annual budgeting to excessive rigidity and lack of reprioritisation, and to allow short-term concerns to dominate budget allocations, while ignoring the longer term. The medium-term perspective helps, in conjunction with other reforms such as spending review, to attack budgetary incrementalism. Incrementalism refers to the tendency to fail to critically analyse the mass of ongoing – "baseline" – expenditure and to focus budgeting almost entirely on incremental changes to spending, so that spending patterns become entrenched in the face of evolving needs and priorities (World Bank, 2023, Network of EU Independent Fiscal Institutions, 2021).

In summary, medium-term fiscal and budget frameworks are considered to bring a range of benefits to fiscal and budgetary decision-making relative to traditional annual budgeting (World Bank, 2023, Moretti, 2023, Harris, et al., 2013):

- bringing greater transparency and realism to budget formulation, providing a more solid basis for fiscal discipline and sustainability;
- providing greater medium-term budgetary predictability to spending departments and important policy agendas such as the net zero transition;
- fostering more effective prioritisation of expenditure by improving the translation of fiscal objectives and constraints into strategic priorities, and better linking these to broad budget aggregates and detailed expenditure plans; and
- improving the allocation of resources, reducing spending volatility, and driving a shift away from unproductive spending;

The remaining sections of this briefing set out:

- definitions and key features;
- key design features with respect to which medium-term frameworks differ significantly between countries;
- insights into designing and implementing medium-term budgeting; and
- international examples.

Definitions and key features

As indicated above, the label '**medium-term fiscal and budget frameworks**' broadly encompasses the interrelated processes, systems, and institutional structures designed to extend fiscal and budgetary decision-making beyond the confines of the annual budget calendar. While there is strong consensus on the value and advantages of adopting a medium-term perspective in fiscal and budgetary policymaking, more detailed definitions and terminology vary considerably in the academic and grey literature, with overlaps and areas of divergence between key concepts, including 'medium-term expenditure frameworks (MTEFs)', 'medium-term fiscal frameworks (MTFFs)', and 'medium-term budget frameworks (MTBFs)'. This paper focuses on the latter two concepts and follows Harris et al. (2013) in stressing the importance of distinguishing between them, as well as understanding how they interact with each other and the wider systems and processes of fiscal and budgetary policy.

To clarify the approach taken in this paper, the following section defines medium-term fiscal frameworks (MTFFs) and medium-term budget frameworks (MTBFs) as distinct but interrelated components of fiscal and budgetary policymaking. In essence, a '**medium-term fiscal framework (MTFF)**' can be understood as a mechanism for setting multi-year macro-fiscal objectives and targets, encompassing the particular rules and processes through which a government is required to 'commit to, report against, and be held accountable for medium-term aggregate fiscal objectives, such as debt limits, surplus targets or deficit ceilings' (Harris, et al., 2013: 138). Typically, this will include a combination of multi-year macroeconomic and fiscal forecasts and the articulation of corresponding medium-term fiscal targets.

A **medium-term budget framework (MTBF)**, on the other hand, consists of a set of procedures, tools and institutional arrangements for prioritising, presenting and managing revenue and expenditure in a multi-year perspective, and are a key mechanism for translating a government's medium-term fiscal objectives into their annual budgets (Harris, et al., 2013, Network of EU Independent Fiscal Institutions, 2021). In providing governments with the tools to programme their budgetary policy on a multi-annual basis, MTBFs are argued to be essential for bringing the medium-term fiscal objectives and constraints embedded in the MTFF into the 'political decision arena' of the budgetary process – without an MTBF, a government's medium-term fiscal objectives and budgetary processes risk becoming disconnected (Network of EU Independent Fiscal Institutions, 2021).

In this definition, MTBFs have the following key features in common (Harris et al., 2013):

1. *Robust multi-year estimates of all revenues and expenditures.* On the expenditure side, this means two things. Firstly, multi-year estimates of the costs of all new spending options under consideration. Secondly, comprehensive expenditure baselines which estimate the multi-year expenditure required for the continuation of all current government policies and programmes, quantifying year-to-year variations of spending on a given policy or programme to maintain its current level (baselines are also iterative and are updated internally to reflect all new policy decisions with an expenditure impact).

2. *Budgetary decision-making processes designed to ensure that the fiscal impact of the totality of government decisions on expenditures and revenues is consistent with the aggregate fiscal objectives set in the MTFF (e.g. debt and deficit limits).*

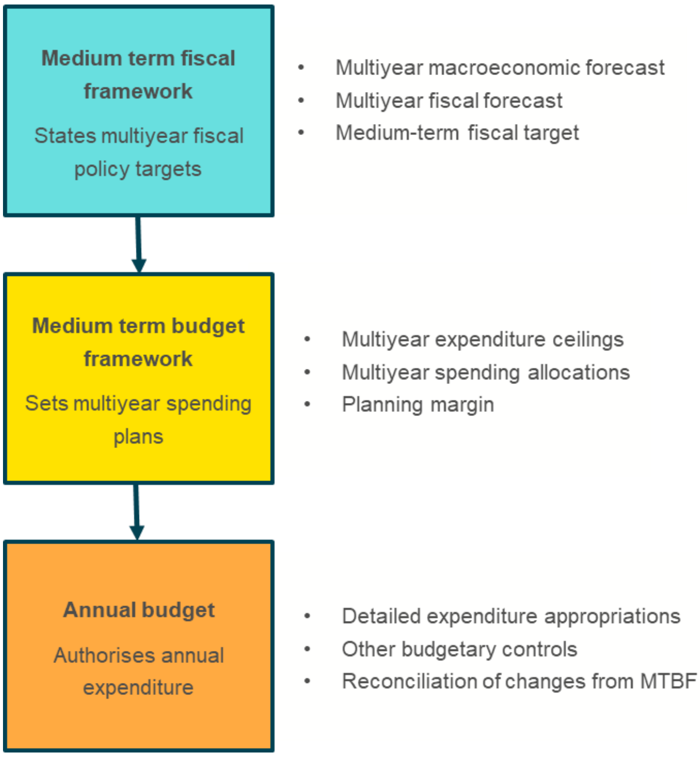
3. *Mechanisms for prioritising expenditure* – ensuring spending is allocated in line with government's medium-term priorities.

4. *Expenditure controls* – monitoring and enforcing compatibility of updated multi-year expenditure baselines with approved medium-term expenditure plans.

5. *Accountability arrangements* – enabling parliament and the general public to assess adherence to the stated medium-term fiscal and budgetary objectives over time.

It is through these interconnected features that MTBFs enable governments to establish, maintain and be held accountable to multi-year spending plans in line with the medium-term fiscal targets set out in their MTFF (an overview of the relationship between medium-term fiscal frameworks, medium-term budget frameworks and annual budgets is outlined in Figure 1 below).

Figure 1: The relationship between MTFFs, MTBFs, and annual budgets



Source: Adapted from Cangiano cited in Network of EU Independent Fiscal Institutions, 2021.

As this highlights, a proper medium-term framework requires full integration of the medium-term perspective into the budget preparation process, irrespective of whether budget allocations to departments are annual or multi-annual. The MTBF should therefore be fully integrated into the budget calendar, budget documentation and reports.

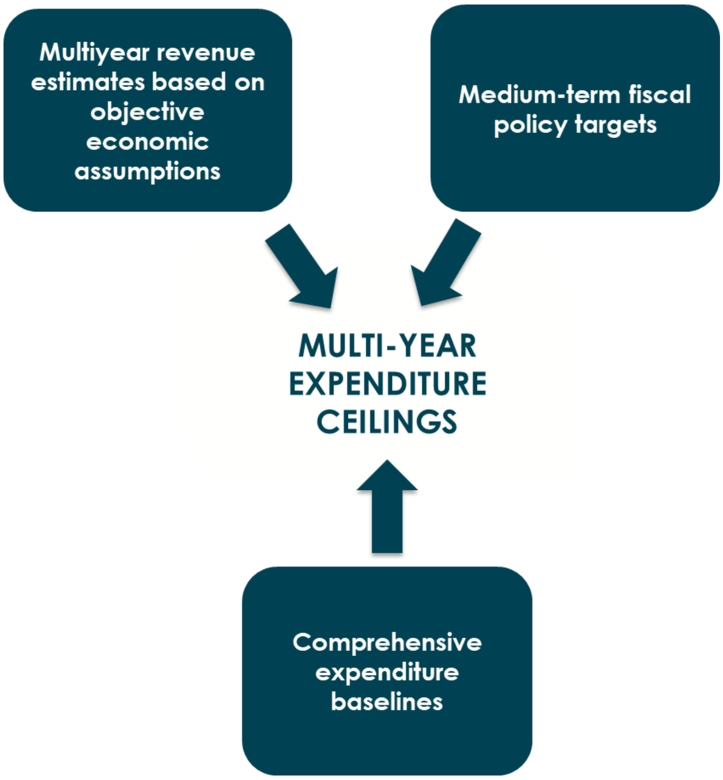
Designing and implementing a medium-term budget framework

While MTBFs have each of the features described above in common, there is considerable variation in practice in how each is designed and implemented and in how these different design choices combine to form the overall framework, reflecting differing contexts and objectives for implementing medium-term budgeting. (Appendix 1 presents a summary of the key choices involved in designing and implementing an MTBF.)

A particularly important difference between medium-term budget frameworks in various countries is that many – but not all – incorporate **top-down budgeting**. The defining feature of top-down medium-term budgeting is that the preparation of the budget is disciplined by the application of **multi-year aggregate expenditure ceilings**, which represent the level of total expenditure compatible with the government's high level medium-term aggregate fiscal objectives (as set out in the MTFF). The level of these multi-year ceilings is determined jointly by these medium-term aggregate fiscal objectives and **medium term revenue estimates** based on objective economic assumptions (including, for example, the forecast for GDP growth).

In a top-down medium-term budgeting framework, the **fiscal space** available to fund new spending (or tax cuts) is defined as the difference between the aggregate expenditure ceiling and the expenditure baseline (see above). The explicit estimation of available fiscal space – in conjunction with the possibility of increasing fiscal space by making reductions to baselines – supports decisions on reallocations required to deliver the government's medium-term policy objectives (OECD, 2022) (see figure 2 for an overview of how medium term fiscal policy targets, revenue estimates and expenditure baselines combine to shape the level of restrictions on future spending set out in multi-year expenditure ceilings in a top-down medium-term budgeting framework).

Figure 2: Setting multi-year expenditure ceilings



Source: Adapted from OECD, 2022.

Another design feature of medium-term budget frameworks which differs considerably between countries concerns the use of fixed **multi-year allocations** to departments. In the medium-term budget frameworks of certain countries – including the United Kingdom – departments are given fixed budget allocations not just for the next financial year, but for each year over the medium-term time horizon. This gives them a particularly high level of certainty about future budget allocations. However, in the majority of countries with well-developed medium-term budget frameworks, no such commitments are made to departments about their budget allocations beyond the next financial year.

As mentioned at the outset, an important objective of medium-term budgeting is to provide greater medium-term stability in budget allocations to government departments and policy agendas such as net zero. This objective is achieved even without the use of fixed multi-year budget allocations. This is because the fact that the budget is formulated in a medium-term perspective means, firstly, that departments know that their baselines are consistent with the government's fiscal objectives over the medium-term. Secondly, it greatly reduces the likelihood that expenditure or revenue surprises will force the government to make significant unanticipated year-on-year adjustments to departmental budgets.

A final necessary feature of MTBFs is that they include expenditure controls governing how multi-year baselines are updated and reconciled with the approved multi-year spending plans on an ongoing basis. Finally, an effective MTBF will encompass multiple accountability arrangements through which the legislature and general public can assess adherence to the stated medium-term fiscal and budgetary objectives over time (Harris et al, 2013).

Challenges and recommendations for successfully implementing MTBFs

Studies examining implementation of MTBFs caution that the shift from an annual to a medium-term horizon in budgeting is fraught with challenges. One fundamental barrier is that future demands on government are inherently uncertain; while a well-designed MTBF can reduce uncertainty about future expenditure requirements, unforeseen pressures are inevitable and must be accommodated either by increasing total expenditure (and risking undermining the credibility of the medium-term budget process), revising the allocation of expenditure, or leaving a significant proportion of expenditure unallocated for the period covered by the framework (or through some combination of these measures) (Harris, et al., 2013). How a government chooses to resolve these tensions is key to the overall design of their MTBF (see the table in Appendix 1 for more insight into the choices available).

Other challenges noted in the literature include the following (Raudla, et al., 2022, Radu, 2023, Curristine, et al., 2024):

- limited capabilities for accurate economic forecasting and timely data;
- a lack of political commitment;
- poor integration of MTBFs with the annual budget process;
- challenges ensuring that multi-year expenditure ceilings have a real impact on budget preparation (often reflecting weak strategic decision-making procedures and an inadequate budget allocation process) and;
- difficulties dealing with the uncertainty inherent in multiyear projections.

To ensure that an MTBF genuinely guides budget preparation and is more than a paper exercise, it is key to secure political commitment at the highest level. High level political ownership of the MTBF can be promoted via the following (Curristine, et al., 2024):

- clearly defined medium term fiscal objectives endorsed either through legislation or political leadership;
- communicating to politicians how the MTBF relates to achieving fiscal objectives and the government's policy priorities in a fiscally sustainable manner; and
- establishing a committee with high level political participation to discuss and approve the government's fiscal strategy and the MTBF (and/or having cabinet endorsement).

It is also seen as critical to establish institutional arrangements that link the MTBF to the annual budget process, helping ensure it is effectively integrated into budgetary and fiscal policy-making. Options for this include (ibid):

- including a strategic phase to the budget to ensure total expenditure ceilings are approved at the highest level and that allocations to new expenditures or

revenue policies reflect government priorities, taking into account their medium-term budgetary impact; and
- establishing a dedicated organisational structure setting out key stakeholders' roles and responsibilities, and putting in place formal coordination mechanisms between stakeholders (such as macro-fiscal working groups).

However, as is hinted above, many of the challenges encountered in adopting a medium-term horizon in budgeting relate to and are compounded by preexisting weaknesses in the annual budget process itself (Allen, et al., 2017). Even in traditional annual budgeting, that is, it can be difficult to ensure that budget outturn is consistent with the approved budget, especially if budgets are not well prepared (resulting in allocations that do not reflect the true costs of programmes and policies) or if control over in-year expenditure commitments is insufficient (resulting in overspending) (Curristine, et al., 2024). Improving the credibility of the annual budget is therefore an important precondition for effective implementation of an MTBF. Conversely, MTBFs perform most effectively when budget preparation processes are well-structured, reflecting the following elements (ibid):

- both the budget and the budget process are comprehensive, covering all central government revenue and expenditure and with all major expenditure decisions made concurrently (with restrictions on the ability to introduce new policies with fiscal implications outside of the budget itself); and
- there are relatively few earmarked or standing expenditure commitments (these kinds of expenditure rigidities in the budget can reduce the government's scope to reallocate resources in the face of new policies or demands, increasing the pressure to exceed agreed expenditure limits).

A further precondition for effective medium-term budgeting identified frequently in the literature is capacity for calculating accurate and credible macroeconomic and fiscal forecasts, underpinned by timely data and transparent and objective economic assumptions. In the context of medium-term budget planning, getting economic assumptions right is regarded as particularly important for producing a realistic revenue forecast and expenditure baseline, and therefore enabling an accurate assessment of future fiscal space. Practice recommendations for implementing MTBFs frequently highlight the need for countries to strengthen processes and increase transparency over baselines, given that these constitute the building block for credible expenditure ceilings. Options for doing this include publishing baselines and the detailed methodologies underpinning them, enabling baselines to play their full role in setting expenditure ceilings and budget formulation; and implementing in-year updates of baselines, to provide early warning on the fiscal impacts of any policy decisions made outside the budget process (Moretti, 2023). Similarly, it is frequently highlighted in the literature that input into macroeconomic forecasts from independent fiscal institutions can be critical to improving their accuracy and credibility, and therefore to strengthening the overall implementation of medium-term budgeting (Moretti, 2023, World Bank, 2024, Harris, et al., 2013, OECD, 2022). Finally, the literature points to a range of recommendations for ensuring credibility of the multi-year expenditure ceilings which define top-down MTBFs (these are discussed in the table in Appendix 1 on the available design choices for expenditure ceilings and implementation of medium-term budgeting more widely).

Three international medium-term budgeting case studies are presented below.

International examples

The Netherlands

In the Netherlands, discussion of budgetary rules for the next four years commences at the end of an incumbent governments' term, when the Netherlands Bureau for Economic Policy Analysis (CPB) publishes a 5 year macroeconomic forecast which includes trajectories for the government balance and debt ratio and an assessment of the long-term sustainability of public finances, based on an assumption of no policy changes. Following the elections (once a new coalition government is formed), the CPB updates their medium-term forecasts and calculates the impact of the new Coalition Agreement on the medium-term scenario; this adjusted medium-term baseline is integrated in a new multi-annual budget by the Ministry of Finance, at which point the new government determines budget targets for the next four years including separate expenditure ceilings for central government spending, social security, and healthcare (covering c. 80% of total government expenditure). Expenditure ceilings are set in nominal terms at the beginning of the government's term, based on CPB's forecasts of wages and prices. The three ceilings are then corrected additively for the estimated impact of CPB's updated forecasts during the government term. Monitoring of the MTBF is conducted by the Ministry of Finance, with budget management delegated to line ministries, with government fiscal policies subject to scrutiny by the Court of Auditors. In cases of overspending, the ministry directly responsible is also held responsible for the required correction to safeguard the expenditure ceiling.

Sources: Vierke & Masselink, 2017, EU Network of Indepdent Fiscal Institutions, 2021

Australia

The "forward estimates" approach taken by Australia involves setting multiyear estimates of expenditure for each of the 200+ central government programmes, generated on the basis of a standard set of economy-wide parameters, in the form of quarterly projections of wage and price movements, employment levels and so on. Unlike in more restrictive approaches to setting multiyear expenditure ceilings, the estimates can be revised at fixed points, but revisions are only permitted either to realign budget allocations in light of recognised changes in external factors affecting costs (such as an increase in inflation or underlying programme volumes), or to reflect discretionary policy decisions approved by the cabinet. If there are no approved changes, the previous years' estimates remain and eventually become the budget appropriation. Prepared with the same level of detail as the budget, the forward estimates allow for reconciliation between the current budget and the previous year's projections, with differences explained and categorized as resulting from expansion of existing or creation of new policies, or variations in external factors affecting costs as described above. Throughout the year, all new policy proposals are assessed and considered in terms of their impact on the budget and the three-year forward estimates.

The approach has been shown to perform most effectively when it comes to facilitating multiyear expenditure planning, with the lowest levels of annual expenditure volatility compared to other countries' models. This is perhaps explained by the detailed understanding of expenditure dynamics engendered by the process, which has the effect of stabilising the year-on-year allocation of resources.

A potential weakness of the approach is that the use of rolling forward estimates can imply that a large portion of spending (i.e., expenditures on existing programmes already embedded and committed for funding in the forward estimates) is not explicitly subject to policy review each budget cycle. To avoid reinforcing incrementalism and ensure the forward estimates remain relevant to government policy objectives, the approach has been complemented in Australia by reforms directed at ensuring periodic evaluation of progammes to inform the estimates process.

Sources: Harris, et al., 2013, OECD, 2022, Kauffman, 2011, Keating & Rosalky, 1990

Flanders, Belgium

Overview: Belgium has experienced a complex devolution process due to it being home to three distinct communities. The devolved model in Belgium allows Flanders to have its own legislature and government and devolved powers in areas such as education, culture, the environment, economy, infrastructure and employment. In recent years, the Flemish government has recognised the need to manage a growing budget effectively and has made efforts to strengthen its budgetary framework through the integration of spending reviews and medium-term budgetary frameworks.

Process: The annual budget provides an estimate of expected revenue (resources budget) and projected expenditure (expenditure budget) for the upcoming year. This initial budget is framed within a multi-year perspective to ensure long-term financial planning. Each year, the multi-year estimate is reviewed and adjusted based on evolving circumstances, using the initial budget as a reference point. With each update, the estimate is extended by one additional year, maintaining a continuous six-year outlook, including the current year. This multi-year estimate integrates both unchanged policy and selected policy initiatives into a long-term budgetary framework, forecasting the financial trajectory of the Flemish budget. A distinction is made between forecasts based on existing policies and the financial impact of newly introduced policies. For unchanged policies, the underlying assumptions regarding cost drivers and budgetary commitments are carried forward into future years. In addition, Flanders has recently introduced expenditure benchmarks. An expenditure benchmark is 'a budgetary compass designed to keep the budget on track or bring it back on track if it deviates from the medium-term budgetary objective' The benchmark sets a maximum allowed growth path for public expenditure whilst also taking into consideration the established budgetary targets to guarantee the sustainability of public finances in all circumstances and to discourage ad hoc adjustments.

Assessment: The OECD has assessed Flanders as having a solid medium-term planning framework but has noted that better integration of budgetary tools could be achieved. They state that as the multi-annual estimates are based on the annual budget where the first year is binding, making the subsequent years estimates, it is important to continue to build on the medium-term planning framework and ensure that spending review findings are reflected not just in the annual budget, but over the medium-term too.

Sources: OECD, 2024, Flanders Department of Finance and Budget, 2022.

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About the Wales Centre for Public Policy

Here at the Centre, we collaborate with leading policy experts to provide ministers, the civil service and Welsh public services with high quality evidence and independent advice that helps them to improve policy decisions and outcomes.

Funded by the Economic and Social Research Council, Welsh Government, and Cardiff University, the Centre is based at Cardiff University and a member of the UK's What Works Network.

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Appendix 1: Designing an MTBF

MTBF key feature	Definition and purpose	Key design decisions
Multi-year expenditure ceilings	Expenditure ceilings place restrictions on spending levels in advance of preparing the budget. In top-down MTBFs, expenditure ceilings are set on a multi-annual basis and apply to successive annual budgets.	**1. *Binding or indicative*** In an MTBF, limits on expenditure for the first budget year typically become binding when approved with the annual budget. Policy makers need to choose whether limits for the outer years are **binding** (they cannot be modified) or **indicative** (they can be modified); the latter are relatively more common, though some have claimed that countries with binding multi year ceilings perform better at meeting their medium term fiscal objectives. Among countries with MTBFs, there are two types of binding expenditure ceiling: **fixed aggregate ceilings**, which place a binding limit on all or most government expenditure and tend to be most effective for promoting multiyear expenditure discipline; and **fixed ministerial ceilings**, which place binding limits for each central government ministry and tend to be most effective for facilitating multiyear expenditure planning. **2. *Nominal or real*** In the most simple and straightforward approach, the government sets a **nominal** limit on expenditure and commits not to exceed this. This is simple to interpret and monitor and lends itself to promoting multiyear expenditure discipline but can conflict with other government policy priorities if conditions change (for example, potentially implying large cuts in government spending in the event of inflation surprises). Expenditure ceilings set in **real** terms can ensure that compliance is not affected by inflation surprises; however, because different public expenditure items have different price elasticities, real ceilings are more complex to calculate and are less transparent and predictable. Because they fully accommodate inflation surprises, real ceilings also risk making inflation more entrenched. A final variation of expenditure limits commits government to a defined level of output in relation to a given policy (such as a legislated entitlement for which budget allocations vary with the number of eligible beneficiaries). While this approach ensures consistent

(Multiyear expenditure ceilings cont.)

delivery of services, it requires advanced systems for costing, forecasting and updating expenditure estimates.

3. ***Categories of expenditure covered and excluded***
   The coverage of multiyear expenditure limits varies widely across countries with MTBFs, with many countries excluding certain items (for example on the grounds that they are volatile, fiscally neutral, nondiscretionary, or countercyclical) and/or defining alternative medium-term restrictions for specific types of expenditure. Coverage tends to be widest for the fixed aggregate ceilings and forwards estimates approaches (which offer different forms of flexibility); where ministerial expenditure ceilings are set in nominal terms (as in France and the UK), numerous items tend to be excluded to enable compliance at the ministerial level.

4. ***Frequency of revision for discretionary policy changes***
   There are two broad approaches to how MTBFs are designed to enable revisions to multiyear expenditure ceilings to allow for discretionary changes in policy. The first is via an **annual review cycle** which enables revisions to the multiyear ceilings to coincide with preparing the annual budget; these reviews of medium-term spending limits will reflect both changes to the annual budget projected into the medium-term and changes due to take effect in years beyond the annual budget horizon. The second approach is to apply a **multiannual review cycle** which fixes the multiyear limits for a period of two or more years; between review cycles, the limits are not revised to allow for changes in discretionary policy.

Mechanisms for prioritising expenditure

For medium-term expenditure plans to be credible, they must simultaneously reflect the government’s policy priorities and conform to any multiyear spending limits defined in the MTBF. This requires institutional mechanisms for prioritising competing priorities in a way that considers their medium-term budgetary impact.

Effective multiyear expenditure prioritisation mechanisms encompass the following elements:

1. ***Medium-term expenditure planning is integrated with the annual budgeting process***
   The most sophisticated MTBFs are fully integrated with the budget process so that all discussions of revenue and expenditure policies consider their impact in a multiyear horizon. This approach to medium-term budgeting has been shown to have significantly more impact on policy prioritisation than approaches with less integration into the annual budgeting process (for example, those which organise medium-term budget planning as a separate process following a different timetable to annual budget preparation and execution).

2. ***There is an accepted and unambiguous methodology for separating the cost of existing policies from the cost of new policies***
   To enable decision-makers to assess the affordability of existing policies and the fiscal impact of new ones, the most sophisticated MTBFs separate the costs of ongoing policies from the costs of new discretionary initiatives comprehensively and consistently, both at a summary level and for individual budget allocations. This requires clearly defining the circumstances in which a ‘no policy change’ assessment applies, with the most restrictive approach defining unchanged policy as a nominally unchanged allocation in the medium term; more flexible approaches provide scope to adjust allocations for unchanged policies where changes in external factors affect their costs or recipient volumes. This places the onus on policymakers to make explicit policy changes if existing policies become too costly or risk exceeding multiyear expenditure limits.

(Mechanisms for prioritising expenditure cont.)		**3. *There is an institutional forum within government empowered to discuss and decide between competing expenditure pressures and proposals*** While their nature and precise configuration varies according to the institutional and political context, the most effective of these decision-making mechanisms tend to: • cover all government activities; • engage high-level political decision makers; • make use of evidence about expenditure performance; and • represent the sole and final decision-making authority.
Expenditure controls **(*Expenditure controls cont.)***	Expenditure controls are vital to ensuring compliance with the multiyear expenditure limits and priorities defined in the MTBF, even as external conditions change over the period covered by the framework.	Four types of expenditure control help ensure future expenditure decisions are consistent with agreed multiyear expenditure commitments and priorities: **1. *Regular updates to baseline projections*** High quality and regularly updated expenditure projections are important for ensuring that initial plans are accurate, and that decision-makers are quickly alerted to emerging pressures. In countries with MTBFs, projected medium-term expenditure is either a) fully or partially updated on two or more occasions during the year, b) fully or partially updated halfway through the year, or c) not updated outside of preparation of medium-term budget plans. ***2. Margins and buffers*** Countries with an effective MTBF tend to set aside an unallocated margin between their medium-term expenditure ceilings and projected medium-term expenditure to absorb unexpected spending pressures. These tend to be relatively small in the current budget year but increase in the out years in line with increased uncertainty about revenue and expenditure outcomes. While unallocated margins are a sensible feature of multiyear budget planning, they also risk creating expectations that more resources will be freed up over time and therefore reduce the focus on policies during budget prioritisation. To

		prevent this, expenditure controls can be adopted which govern how such reserves can be accessed (for example, only to absorb unexpected variations in forecast parameters and not to fund new policies). **3. *Controls on ministries' ability to enter into multiyear expenditure commitments*** Multiyear commitment controls prevent ministries or departments from making multiannual expenditure commitments that are inconsistent with agreed multiyear expenditure plans, applying to all forms of expenditure commitment from legal obligations to contractual undertakings. In the UK Government, for example, each ministry is given a nominal delegated limit above which the ministry must seek treasury approval before entering into a multiyear commitment. **4. *Restrictions on carryovers*** While medium-term budgeting provides opportunities to improve efficiency by allowing ministries to carry over underspends, restrictions are needed to safeguard budget credibility. Potential restrictions on carryovers include: • Limiting the type of appropriations that can be carried over; • Limiting the accumulation of carryovers from one year to the next; and • Limiting the drawdown of carryovers in a given budget year.
Accountability arrangements	Accountability arrangements help to secure the credibility of an MTBF by ensuring the government can demonstrate how the current and projected budgetary position is consistent with existing agreed medium-term commitments and plans.	Effective accountability arrangements for medium-term budget planning include ensuring the following: • Multiyear plans, annual budgets, and final accounts are presented on a comparable basis, ideally via a single, harmonized classification system; • Deviations between multiyear plans and expenditure outcomes are comprehensively and transparently reconciled, with a systematic account of the reasons for and fiscal impacts of those differences; and

- Governments and budget actors are held to account for unjustified deviations (independent fiscal institutions can play an important role in this).

Sources: Harris, et al., 2013, World Bank, 2024, Network of EU Independent Fiscal Institutions, 2021