Unit 3: The budget process

Unit 3 Learning objectives
What is the Budget Process for Parliamentarians?

After studying this unit you should be able to:

- Explain the different stages of the budget process
- Discuss the roles of different actors in the budget process

Introduction

Understanding the way budgets are put together is a crucial first step in influencing decision making. The budget is the result of a process. The priorities and choices it embodies reflect the power of various actors in this process. Those who are effective in influencing the budget succeed in having their choices and priorities included. This chapter provides a general outline of the budget process. While the details will differ from country to country, there are also important similarities across most public budgeting systems. Based on a simplified and generalized discussion, the following sections look at the stakeholders in the budget process, stages of the budget process, and how annual budgeting can be guided by a medium-term expenditure framework.

Actors in the budget process

Within the executive, the role of a finance ministry or treasury is to coordinate and drive the budget process in accordance with a schedule. The finance ministry has the economic expertise to prepare macroeconomic projections. These are important in order to assess the amount of money that will be available for spending. The finance ministry also plays a crucial role in formulating fiscal policy, guiding the drafting of the budget, and later in monitoring budget implementation. Various spending departments are ultimately responsible for expenditures within their jurisdiction, such as health, education, agriculture and so on. Spending departments will often try to extract as many resources
as possible, whereas the role of the finance ministry is that of the guardian of the public purse.

Democratic constitutions require taxation and public spending to be approved by parliament. Therefore, the role of the legislature is to scrutinize and authorize revenues and expenditures, and to ensure the budget is properly implemented. The nature and effect of legislative engagement vary. Some legislatures write the budget; others approve executive budget proposals without changes. In some legislatures most of the debate around the budget takes place on the floor of the house; elsewhere the emphasis is on discussion in committees. Some legislatures fragment decision-making power in the budget process across various committees; others have a single financial committee that dominates the process. Ultimately, the final vote takes place in the chamber. However, where committees play a strong role, the house tends to be guided by committee reports in approving financial legislation. Legislators are aware of their constituencies’ priorities and needs when considering the budget.

Independent supreme audit institutions such as auditor generals or audit courts carry out an audit of government accounts in order to determine whether government did in fact implement that budget as passed by the legislature. Some of them also consider whether this was done efficiently and effectively. While this basic task is similar across different systems, there are differences in the institutional design of supreme audit institutions. For instance, some are directly linked to the legislature, while others have judicial independence. There are also differences with regard to capacity, resources, and types of audit conducted. The role of supreme audit institutions and their interaction with parliament is considered in detail in another unit.

The potential contribution to the budget process of civil society organizations, covering the full spectrum from think tanks to community-based organizations, is increasingly appreciated. Civil society organizations can provide independent research from a perspective that is not covered by conventional analyses. One example is the work on the impact of the budget on vulnerable groups such as women or children that civil society groups have pioneered, sometimes in collaboration with the legislature. In some countries where the legislature has limited research capacity, think tanks and universities can ensure access to sound technical analysis of fiscal issues. Civil society input to the
legislature is promoted when committee and chamber debates are open to the public, legislative information is freely available, and when committees conduct hearings and receive submissions on legislation and budgets.

The media has an important role to play in ensuring that the central issues in budgetary debates are widely understood. In order to play this role, journalists require full access to the legislature and its committees, and all relevant documentation should be available to them. Training and capacity building can help journalists to maximize the quality of their reporting on the budget, and there have been instances where media institutes or civil society organizations have provided such opportunities. A later unit discusses the role of civil society and the media during the budget process.

International financial institutions and donor agencies play a powerful role in the budget process of poor countries with particularly high levels of foreign debt. When international financial institutions and donors attach stringent conditions to loans, the legislature's role may be severely diminished to rubberstamping budgets that reflect prior agreements between lenders and the executive. To be supportive of sound budget practices, donor funding needs to be transparent and predictable, and full information on such funding should be given in the budget. Increasingly, the negotiations around debt and new financing involve a wider range of state and non-state actors. Consultative Group Meetings, as they are called, have become important opportunities for the private sector and civil society groups to make their voices heard on economic and budget policy issues.

**Stages of the budget process**

Budgets have to be passed regularly, usually on an annual basis, in order to ensure that the government continues to operate. The budget process is governed by a timeline that typically can be separated into four different stages:

- Drafting
- Legislative
- Implementation
- Audit and evaluation
This basic sequence is applicable for many if not most countries whose governments are built on democratic principles. But across countries there are many differences in the influence of various actors and the timing of the process. The following paragraphs look at a simplified version of public budgeting in the form of a generalized overview of the process of preparing, approving, implementing and auditing a single budget.

It is important to remember, however, that in real life budget cycles overlap. At any one time a number of different budgets are at different stages of the budget process. For example, while one budget is being drafted, another budget might be awaiting legislative approval, yet another might be in the process of being implemented, and a fourth one that has already been implemented might be subject to audit and evaluation. This means that the legislature concurrently has to deal with several different budgets at different stages in their process. The overlapping nature of budgeting means that the maintenance of fiscal oversight can be a complex challenge.

The drafting stage is concerned with compiling a draft budget that can be submitted to the legislature. This stage is mostly internal to the executive, but it does not have to be a secretive affair. The first step is to set fiscal policy and estimate available revenues in order to establish the total resource envelope that will be available for spending. Based on the policy framework of the government the finance ministry issues indicative expenditure ceilings for each department. This leads up to negotiations between spending departments and the finance ministry about the allocation of funds across
different functions. A consolidated draft budget has to be reviewed and approved at the highest political level, such as the president or cabinet, which will also make final decisions on especially contentious issues that could not be resolved before.

Once a comprehensive budget has been drafted, it has to be approved by the legislature to become effective. During the legislative stage, parliament scrutinizes the expenditure and revenue proposals of the executive. Its options are to approve or reject the budget, to amend it, or, in a few cases, to substitute the draft tabled by the executive with its own budget. In some countries, the legislature passes separate legislation for appropriations and changes to the tax code; in others it considers a unified budget bill. The exact form of legislative approval is less important than the fact that it must be comprehensive. Legislative authorization of all public spending and taxation ensures the rule of law in public finance.

The duration of the legislative stage is an important element of variation between budget processes of different countries. The United States Congress spends about eight months and sometimes more on deciding the budget, while some legislatures only have about a month. Budget scrutiny takes time. A good rule of thumb, therefore, is that the more time the legislature has to review the draft budget, the greater its overall potential influence. A national legislature requires a minimum of three months for effective consideration of the annual state budget.

Implementation of the budget commences with the beginning of the fiscal year. The execution or implementation stage of the budget process is mainly in the hands of the executive. The finance ministry or treasury usually plays a leading role in assuring that funds are apportioned to spending departments in line with the approved budget. Sometimes, however, in many developing countries, cash constraints lead to certain expenditures being cut below voted and other unplanned adjustments to approved spending. Funds might be shifted to purposes other than those that were approved. Improvised budget cuts tend to adversely affect vulnerable groups that have a weak political voice, and who are most dependent on government initiatives. Frequent adjustments to budgets can reflect the uncertainties that are characteristic of the macroeconomic environment, but ‘continuous’ or ‘repetitive budgeting’ is also a symptom of a weak and ill-disciplined budget system. To ensure that its authority is not
undermined by excessive adjustments, the legislature might find it useful to keep a close eye on implementation through scrutiny of actual spending during the fiscal year. Any significant adjustments to the budget should be captured in adjustment or supplemental appropriations that are tabled in the legislature for approval. In-year adjustment decisions need to be made in a transparent manner and should be subject to the same scrutiny carried out at the budget formulation stages.

All countries are exposed to fiscal risks inherent in a continuously changing economic environment and even with high quality forecasting many new and urgent pressures on public spending are impossible to anticipate and can emerge suddenly. For instance, infrastructure reconstruction might unexpectedly become necessary due to natural disasters such as floods or storms. To ensure that the budget remains authoritative even during difficult economic times, a budgeting system needs to cope with uncertainty (Crippen 2003). This is the function of contingency reserves, which set aside an amount for adapting the budget to changing circumstances or emergencies. However, contingency reserves need to be clearly accounted, decisions about their use should be transparent and approved by the legislature, and they should not be excessive in size. Otherwise, they can easily deteriorate into ‘slush funds.’

There are other potential challenges to the proper implementation of annual budgets. Ordinary legislation introduced during the course of a financial year can have budgetary implications, for example by creating or increasing entitlements such as social grants. This might bring such legislation into conflict with the constraints of the approved budget or medium term expenditure plans. For this reason, the process of drafting ordinary legislation should include a consideration of its implications on the budget in both the short and medium to long term. This information should be available to the legislature during the law-making process, so that it can be subjected to independent and open scrutiny.

During the audit and evaluation stage, an independent audit institution, such as an audit court or auditor general, analyses government accounts and financial statements. In most countries, the audit of accounts is followed by the consideration of audit findings by the legislature. If the process is effective, any recommendations based on audit findings are reflected in future budgets, which allows for continuous improvements in public spending.
and generally public financial management. Audit reports need to be produced and tabled in the legislature as speedily as possible to ensure their relevance and accuracy. Long delays undermine accountability, because officials who are responsible for a loss of public money may have moved on or retired by the time an incident receives attention. Delays may make it more difficult to pursue disciplinary measures. The interest of the public is also likely to focus on more current matters. The timely submission of audit reports requires that departments produce their financial statements in time for the audit institution to meet the deadline. The relevant financial management legislation usually prescribes when and in what form the necessary information has to be submitted by departments to the auditors.

Budgeting is a process rather than an event, and budget cycles are ongoing and interconnected. The role of parliament should not be restricted to budget approval and the review of audit findings. For instance, in a number of countries parliamentary committees ask government to report on the process of drafting an upcoming budget yet to be tabled, and legislators might request certain documentation that is used in the drafting process. During budget execution, the legislature should have access to actual revenue and expenditure data on an ongoing basis. In this way, it will be able to keep track of the progress that is being made in implementing the approved budget. This provides an opportunity to pick up problems at an early stage, before they result in significant deviations between the approved budget and actual revenues and spending. When parliamentarians follow the entire budget process as it unfolds they will be in a position to acquire relevant expertise and to keep track of emerging issues. Legislative effectiveness in budget scrutiny is enhanced by continuous oversight.

**Budgeting for the medium term**

With budgeting on a year by year basis, new policy initiatives stand little chance of being sufficiently accommodated because there is a bias towards existing programs. Since the need for particular programs can shift over time, unnecessary expenditures may be carried over year after year, leaving insufficient funds to address more pressing new needs and priorities. Also, many aspects of budgeting require more than an annual time horizon. For instance, when planning for large scale capital expenditure projects or
substantial restructuring of service-delivery agencies, the planning period stretches over a number of years. Many countries have introduced a medium-term expenditure framework (MTEF) to support strategic prioritization and sustainable fiscal planning beyond the horizon of annual budgets.

The purpose of an MTEF is to indicate the size of the financial resources needed during the medium term, usually between three to five years, in order to carry out existing policy. The MTEF concept differs from multiyear budgeting, which involves fixed appropriations for a certain number of fiscal years. Usually, only the first year of an MTEF is approved by the legislature as the annual budget, whereas the outer years are nonbinding projections of the future cost of existing policy. The firmer these projections become, the more they move to the centre stage of the budget process and form the basis for the annual negotiation of allocations, resulting in a system of ‘rolling budgets.’ All OECD countries have medium term frameworks, and many developing countries have implemented, or are in the process of implementing, similar tools.

While the details will differ, there are some basic steps that need to be carried out in the process of compiling an MTEF. The first step involves the setting of aggregate and sectoral spending ceilings, based on realistic revenue projections and fiscal policy. The guidance of the finance ministry is important at this stage. The second step involves policy planning within the spending ceilings that have been established. This requires departments to cost programs and consider their linkage to strategic objectives. There will always be contentious issues and difficult trade-offs that have to be negotiated. The third step, therefore, is to make a binding political decision involving final negotiations and the approval of medium term spending choices by cabinet.

Medium term budgeting has been implemented in many countries, but with varying degrees of success. Highest level political commitment is crucial in ensuring that such a reform takes root. When medium term planning is widely considered to be a ‘technical’ exercise for bureaucrats, and politicians do not buy into the process, the framework is unlikely to acquire the status and authority that it needs in order to become entrenched and deliver improvements. To enhance debate on public spending MTEFs should be tabled and discussed in parliament. Another ingredient of success is to clearly link medium term spending and revenue figures to government policy, for instance by linking
the MTEF with a medium term budget policy statement. It is only with narrative information on the content and direction of budget policy that the medium-term figures can be adequately interpreted and assessed by parliament.

### Table 2
Does the annual central government budget documentation submitted to the legislature contain multi-year expenditure estimates?

<table>
<thead>
<tr>
<th></th>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes</td>
<td>28</td>
<td>70%</td>
</tr>
<tr>
<td>No</td>
<td>12</td>
<td>30%</td>
</tr>
<tr>
<td>Total</td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>


### Conclusion

For parliamentary budget researchers and committee staff thorough acquaintance with the actors and process of budgeting is essential. This unit looked at a simplified and generalized summary of budgeting in the public sector. Core participants in a typical budget process are the executive, including finance ministries and spending departments; the legislature and its committees; and supreme audit institutions. Media reporting and civil society participation enhance transparency and public debate. Most budget processes in the public sector go through drafting, legislative, implementation, and audit stages. Medium-term budgeting frameworks are increasingly used to guide annual budgeting and to provide a broader planning horizon that is necessary for many tasks in budgeting. Successful medium term planning requires political commitment to the framework, rather than being a technocratic add-on to the budget process.

### Unit 3 Questions

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- Why do budget cycles overlap?
- Who plays a role in the budget process in your country?
- Draw a timeline of the budget process in your country. In what way does it differ from the generalized version discussed here?
- Is an MTEF part of the budget system in your country? If so, is it effective?
Relevant internet resources


Institute of Public Finance: *A Citizen’s Guide to the Budget*
http://www.ijf.hr/eng/budget_guide/proen.pdf

New Zealand Treasury: *The Budget Process*
http://www.treasury.govt.nz/budgets/process/

Organisation for Economic Co-operation and Development: *Results of the survey on Budget Practices and Procedures*
http://ocde.dyndns.org/

World Bank: *Medium Term Expenditure Framework*
http://www1.worldbank.org/publicsector/pe/mtef.htm

Select bibliography


http://www.oecd.org/dataoecd/33/13/1905258.pdf


Unit 4: Parliamentary approval of the budget

**Learning objectives**

*What Role does Parliament play in approving the budget?*

After studying this unit you should be able to:

- Explain how the constitution impacts on parliament’s role in budgeting
- Discuss the roles of committees in scrutinizing the draft budget
- Assess the provision of relevant budgetary information in your country against good practice standards

**Introduction**

The role of parliament in approving the budget differs sharply across different countries. Some are powerful players in the budget process, and significantly shape budgets. Others generally approve the budget as tabled by the executive without any changes. This unit deals with some of the factors that shape the role of parliament in the approval stage of the budget process. The following sections consider parliament’s legal powers to initiate financial measures and to amend budgets tabled by the executive; the timing of the budget and what happens if the budget is not approved in time for the beginning of the fiscal year; the role of parliamentary committees in scrutinizing executive budget proposals; access to information and analysis capacity as a basis for parliamentary decision making; and party political dynamics.

**The constitutional basis for legislative budgeting**

The formal budgetary powers of a legislature are often spelled out in a country’s written constitution, but they can also be based on convention, determined by ordinary legislation, or spelled out in legislative rules. These powers can vary in several aspects.

Some legislatures face constitutional restrictions on their right to introduce financial legislation. Where parliamentarians cannot introduce financial legislatures, only the executive can initiate spending and revenue measures. Another important factor affecting
the potential scope for legislative influence is the legislature’s legal powers to amend financial legislation. The more permissive these amendment powers are the greater is the potential scope for legislative activity. Moreover, some constitutions provide for executive veto authority of the kind that requires extraordinary majorities to be overridden by parliament. By exercising a veto, the president can challenge legislative choices.

### Table 1: Legislative powers to amend the budget

<table>
<thead>
<tr>
<th>Budgetary powers</th>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlimited powers to amend the budget</td>
<td>32</td>
<td>40%</td>
</tr>
<tr>
<td>Reductions of existing items only</td>
<td>17</td>
<td>21%</td>
</tr>
<tr>
<td>Rights not specified</td>
<td>15</td>
<td>19%</td>
</tr>
<tr>
<td>Increases must be balanced with commensurate cuts elsewhere</td>
<td>13</td>
<td>16%</td>
</tr>
<tr>
<td>May reduce expenditure, increase only with permission of government</td>
<td>4</td>
<td>5%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>81</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>

Source: Inter-Parliamentary Union (1986: Table 38A).

There are various traditions of amendment powers. It appears that the largest category of legislatures has unfettered powers to amend the budget. The classical example is provided by the United States whose constitution establishes no legal limits on the budgetary powers of Congress, although the latter has self-imposed limits from time to time. Unfettered powers allow the legislature, in theory, to introduce its own budget and to rewrite the entire budget proposed by the executive.

Other countries constrain the powers of the legislature so as to protect the balance between revenues and expenditures suggested by the executive. This requires that an increase of expenditures has to be counterbalanced with a corresponding cut elsewhere to maintain the aggregate total. A variant of amendment powers that safeguard the deficit allows the legislature to reduce expenditures, but to increase them only with permission of the executive. In effect, this gives the government a veto over legislative amendments that increase the deficit. Versions of this configuration are popular in francophone and Latin American countries.

In the Westminster tradition parliament cannot initiate financial bills and it has strictly limited powers to amend the government’s financial proposals. Parliament may only reduce existing items proposed by the government, but it may not include new items or
increase existing ones, nor can cut funds cannot be shifted to increase spending on a
different item elsewhere in the budget. This configuration evolved during the early days
of the House of Commons, when it met to consider demands for subsidies made by the
Crown. Its task was to decide whether and to what extent it would comply with the
demand, rather than to initiate its own spending plans for the monarch. Many countries
in the Commonwealth have adopted this configuration.

Legislative powers over the budget are sometimes counterbalanced with executive veto
powers. Such veto powers are more commonly found in presidential systems of
government, although there are also a few parliamentary systems that incorporate
executive veto powers over financial legislation, for example New Zealand. Executive
vetoes can take two forms. A package veto allows a president to veto a piece of
legislation in its entirety. In the United States, for example, presidents have used their
package veto power to block appropriations passed by Congress (Williams and Jubb
1996). A line item veto or partial veto on the other hand allows a president to delete
individual items in a financial bill. This allows for greater selectivity. The Chilean President
has such a line item veto, for example. In this way, legislative decisions can be
significantly altered by striking down particular items in the budget that might be of high
priority for legislators.

The timing of the budget

Legislatures require both sufficient time and a properly timed budget process to facilitate
meaningful decision making. International experience suggests that a minimum of three
to four months is required for the approval of the budget by the legislature on the basis
of meaningful analysis and scrutiny. However, sufficient time by itself is not enough. The
budget should also be tabled sufficiently in advance of the fiscal year to which it relates
in order to enable the legislature to make decisions that matter, when they matter.
Reforms to the budget process strengthen the legislature when they address both issues.

On occasion, the timely passage of the budget may not be possible. There can be
reasons for delays, such as an outbreak of war, and it is important for the state to be
able to continue with the provision of essential services. But under normal circumstances,
frequent use of interim spending provisions undermines effective ex ante scrutiny by the
legislature and the cohesion of the budget as a comprehensive plan for annual spending. What happens if the budget has not yet been passed at the beginning of the fiscal year? Does the constitution stipulate a reversionary budget that becomes effective in such cases? One can divide constitutional practice into two broad categories. There are countries where interim spending without explicit legislative authorization is possible, and those where this is not the case.

Perhaps the most well known example of the latter category is the United States, where there are no constitutional provisions for such circumstances. Government shutdowns occur when the budget has not been approved at the beginning of the financial year or Congress has not authorized interim spending. In 1995-96, for instance, delays in congressional approval forced the temporary shutdown of some federal agencies.

Other constitutions stipulate a reversionary budget. In some countries, the executive’s draft budget takes effect if it has not yet been passed at the beginning of the fiscal year. For instance, article 47(3) of the French Constitution allows for the draft budget to be implemented by ordinance in these cases: ‘Should Parliament fail to reach a decision within seventy days, the provisions of the [finance] bill may be brought into force by ordinance.’ Similar provisions can be found in the constitutions of many other francophone countries. Such rules establish a strong incentive for the legislature to expeditiously conclude its consideration of the budget, but they need to be coupled with a requirement for the timely tabling of the budget. Otherwise, they might serve to curtail legislative scrutiny and eliminate essential checks and balances. A typical arrangement in many other constitutions is to provide for automatic interim spending along the lines of the previously approved budget and for a limited period only. For instance, article 82 of the Nigerian Constitution allows the president to authorize withdrawals from the consolidated revenue fund for up to six months and up to the proportional amount of the previous budget should the appropriation bill not have been approved in time.

In the distant past, the English Parliament devised the tactic of voting appropriations near the end of the session as a means of forcing the Crown to utilize its own resources before relying on tax revenue raised from the public. At the time, this was an effective mechanism to minimize the tax burden and to force economy in the royal management of funds. Nowadays, parliament regularly passes votes on account to provide an interim
authorization pending final approval of the annual appropriations to avert government shutdowns. Many countries in the Commonwealth follow this practice. In general, however, it is a recognized good practice to table the budget sufficiently in advance of the beginning of the fiscal year in order to ensure timely approval. Most legislatures outside the Commonwealth do so under normal circumstances.

<table>
<thead>
<tr>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to two months</td>
<td>10</td>
</tr>
<tr>
<td>Two to four months</td>
<td>23</td>
</tr>
<tr>
<td>Four to six months</td>
<td>5</td>
</tr>
<tr>
<td>More than six months</td>
<td>1</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
</tr>
</tbody>
</table>


**Legislative committees and the budget**

The budget goes through several stages in the legislature in a process that usually involves a number of readings and debates on the floor of the house. These debates tend to be about the broad strokes of the budget and to have a publicity function for both government and opposition. The government can use the occasion to advertise its policies, and the opposition has an opportunity to point out perceived shortcomings and to highlight its alternatives. Sometimes, large parts of these debates do not even focus on the budget. Detailed discussions of budget figures usually become possible in a smaller forum at committee level and, away from the political limelight. Legislatures need strong committees to be effective. Legislative committees are the ‘engine room’ of the legislature. It is here that in-depth and more technical debate can take place, away from the political grandstanding that often characterizes proceedings on the floor of the house. Where the committee stage is underdeveloped, and discussion takes place mainly on the floor of the house, the budgetary role of the legislature is weak. Many legislatures have recognized the importance of effective committees.

There are several ways to involve legislative committees in the approval process. Most national legislatures have a finance or [budget committee](#) to consider budget proposals. Sectoral or departmental committees may make recommendations, but under the centralized committee model, these are not binding. This structure can serve to protect
the budget from demands for increased spending from departmental committees, such as those dealing with health, education or transport, that often want to boost spending on ‘their’ sectors. On the other hand, without input from sectoral committees, a chance might be missed to draw on members’ expertise in particular policy areas during the scrutiny of relevant expenditures.

The participation of sectoral or departmental committees does not automatically have to threaten fiscal discipline; it only does so when they can operate in the absence of strict expenditure ceilings and without a coordinating mechanism to keep aggregate spending within target. In some countries, financial committees approve aggregate ceilings for various expenditure areas, whereas sectoral or departmental committees have the power to shape the budget of departments under their jurisdiction. Such a two-tier committee structure for the consideration of spending proposals is used for instance in Sweden. Experience suggests that such a system is useful both in ensuring prioritization by drawing in sector expertise, as well as the enforcement of a hard budget constraint by having a budget committee safeguard aggregate spending.

Box 1: The new parliamentary budget process in Sweden

In the past, the process of budget approval in the Swedish Parliament, the Riksdag, was described as ‘undisciplined.’ The focus of debate used to be on individual appropriations with little consideration of the aggregate effect of parliamentary action. The spending total was only certain at the very end of the process. Parliament recognized a need to reform in the early 1990s, which was a time of fiscal crisis, and established a commission to formulate a reform proposal. The reformed parliamentary process has three key steps. Parliament fixes the aggregate level of expenditures and revenues in a Spring Fiscal Policy Bill, which is tabled in April and approved two months later. Following the tabling of the budget in September, the Finance Committee discusses and recommends the allocations for each of 27 ‘expenditure areas’, such as justice, communications and so on. Once the house has approved the division of aggregate expenditures, sectoral committees allocate funding to individual appropriations within their expenditure areas. The sectoral committees are permitted to change the composition of appropriations but must remain within the agreed total for their expenditure area. The budget is approved in December, before the beginning of the fiscal year in January.

<table>
<thead>
<tr>
<th>Committee structure</th>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A single budget committee deals with all budget related matters with no formal input from other committees. Sectoral committees may make recommendations, but budget committee does not have to follow them.</td>
<td>19</td>
<td>47.5%</td>
</tr>
<tr>
<td>A single budget committee deals with the budget, but members from other sectoral committees attend meetings of the budget committee when expenditures in their specific areas are being dealt with. For example, members of the education committee would attend meetings of the budget committee when expenditures for the ministry of education were being discussed.</td>
<td>6</td>
<td>15%</td>
</tr>
<tr>
<td>A single budget committee deals with budget aggregates (total level of revenue and spending and their allocation to each sector) and sectoral committees deal with spending at the level of each appropriation. For example, the budget committee would establish the total level of expenditure for education, but member of the education committee would allocate the total among each appropriation within the education sector.</td>
<td>7</td>
<td>17.5%</td>
</tr>
<tr>
<td>Sectoral committees deal with appropriations for each respective sector. No budget committee is in place or offers only technical assistance.</td>
<td>2</td>
<td>5%</td>
</tr>
<tr>
<td>Other</td>
<td>6</td>
<td>15%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>40</td>
<td>100%</td>
</tr>
</tbody>
</table>


**Access to information**

Legislative decision making needs to be based on comprehensive, accurate, appropriate and timely information supplied by the executive. The amount of supporting documentation that accompanies the budget figures is crucial. In a number of countries, the budget document itself contains little narrative that outlines the policies underlying tax and spending proposals. Often the only source of narrative information is the budget speech. This makes it difficult for parliamentarians and their staff to understand the policy basis of the budget, and to evaluate whether the budget adequately reflects stated government policy. Many budgets do not sufficiently relate expenditures to budget objectives. If this is the case governments should be encouraged to change the budget format so that it integrates relevant output and outcome information.

There are many other information requirements that have to be met to optimize legislative oversight. Following approval of the budget, in-year actual spending information is essential. This can help the legislature to control unauthorized expenditures
and variance between approved and actual figures in a timely fashion. Budgetary decisions should be made in the knowledge of actual spending information, rather than on the basis of budgeted figures that might be little more than fiction. Apart from good in-year reporting, this also requires effective interaction between the legislature and the audit body, for instance through regular liaison mechanisms. Another reform challenge is often to narrow the gap between the end of the fiscal year and the finalization of audit findings, to ensure that the usefulness of this information is maximized. In many developing countries, the comprehensiveness of information on donor funding needs to be strengthened. Donor funding should be included in the budget, and legislatures should receive detailed information on any funding agreements and attached conditions. The OECD Best Practices for Budget Transparency give a good overview of the types of budget documentation that ideally should be available.

## Box 2: What types of budget documentation should be available?

The OECD has developed Best Practices for Budget Transparency that deal with the availability of budget information, specific disclosure requirements, and integrity and accountability fundamentals. The OECD recommends the following types of budget documentation:

- **A comprehensive budget** includes performance data and medium term projections.

- **A pre-budget report** states explicitly the government’s long-term economic and fiscal policy objectives, and its economic assumptions and fiscal policy intentions for the medium term.

- **Monthly reports** show progress in implementing the budget, including explanations of any differences between actual and forecast amounts.

- **A mid-year report** provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term.

- **A year-end report** should be audited by the supreme audit institution and released within six months of the end of the fiscal year.

- **A pre-election report** illuminates the general state of government finances immediately before an election.

- **A long-term report** assesses the long-term sustainability of current government policies.


Given the density and technical nature of budget documentation, though, the existence of sound and extensive budgetary information in itself is unlikely to be sufficient to ensure legislative oversight. Parliamentarians have to be empowered to independently analyze the budget if they are to play a meaningful role in the process. Even when the
legislature has legal powers and the political space to shape budgets, analytical capacity is necessary to make sound budgetary choices. The ability to understand the budget and to make informed changes depends on sound analysis. It is important, therefore, for parliamentarians to have access to independent information and analysis on the budget preferably through parliament’s own research service.

Many of the more active legislatures, in budgetary terms, have substantial budget research capacity. The Congressional Budget Office in the United States has about 230 highly trained staff. Some legislatures have smaller research units that specialize in budget analysis, and yet others have general research units that can deliver some budget analysis when needed. However, in many legislatures’ budget research capacity is negligible or nonexistent. Building such capacity should be a component of efforts to strengthen the role of the legislature in budgeting. Parliamentary budget research capacity can be complemented with analyses by independent think tanks, private sector economists and academics. In some countries, individual parliamentarians or political parties represented in the legislature employ specialized budget researchers.

### Table 4
Is there a specialized budget research organization attached to the legislature that conducts analyses of the budget?

<table>
<thead>
<tr>
<th></th>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yes, with less than ten professional staff</td>
<td>7</td>
<td>18%</td>
</tr>
<tr>
<td>Yes, with ten to 25 professional staff</td>
<td>1</td>
<td>2%</td>
</tr>
<tr>
<td>Yes, with 26 or more professional staff.</td>
<td>3</td>
<td>8%</td>
</tr>
<tr>
<td>No</td>
<td>28</td>
<td>72%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>39</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


### Table 5
What is the total number of special professional staff serving political parties and dealing largely with budget issues?

<table>
<thead>
<tr>
<th></th>
<th>Number of countries</th>
<th>Percentage of total</th>
</tr>
</thead>
<tbody>
<tr>
<td>None</td>
<td>8</td>
<td>25%</td>
</tr>
<tr>
<td>Less than 10</td>
<td>19</td>
<td>59%</td>
</tr>
<tr>
<td>Between 10 and 25</td>
<td>4</td>
<td>13%</td>
</tr>
<tr>
<td>Over 25</td>
<td>1</td>
<td>3%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>31</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>


Party political dynamics
Budgeting takes place in a broader political context; it is an expression of the power relations of political actors that participate in the process. How much de facto rather than theoretical influence the legislature actually has, is to a large extent determined by political party majorities. The existence of strong or dominant political majorities in the legislature enhances the predictability of voting outcomes. On the other hand, if the legislature features several parties without one of them having an outright majority of seats, the executive will have to assemble support of a number of parties to have its budget passed. It is likely to have to bargain and make concessions during this process. Presidential systems can generate divided government when the president's party does not have a majority of seats in the legislature. A similar effect can occur in parliamentary systems during times of minority government.

A second and related variable is party cohesion or discipline, which entails voting along party lines even if the outcome does not fully match the preferences of the individual parliamentarian. Party majorities only ensure predictability of legislative voting behavior when they are matched with tight party discipline. Low levels of party cohesion are usually associated with candidate centered electoral systems, where party affiliation is not the strongest factor in parliamentary elections. Party centered electoral systems on the other hand tend to ensure higher levels of party discipline because the electoral fortunes of individual parliamentarians are strongly correlated with party affiliation. For instance, in countries that use a party list system of proportional representation the electorate votes for political parties rather than individual parliamentarians. The headquarters of political parties typically have a strong voice in choosing candidates.

**Conclusion**

A number of factors combine to determine the role and impact of the legislature in the approval stage of the budget process. A legislature needs sufficient constitutional powers over budgets in order to influence decision making, notably powers to amend the budget proposal tabled by the executive. But formal constitutional powers alone are not enough. A thorough review of financial proposals requires time for scrutiny and a properly timed budget process, where the budget is tabled sufficiently in advance of the beginning of the fiscal year. Furthermore, parliamentary expertise on the budget is most likely to develop
in specialized committees, in particular a dedicated budget committee. Sectoral committees can contribute valuable subject expertise. Legislative decision making also should be based on full access to relevant and high quality information and parliament should have the ability to independently analyze budgetary information. Finally, constitutional and technical capacity to engage with budgets is not likely to be utilized unless the legislature has a degree of political independence from the executive.

**Unit 4 Questions**

Please answer each of the following questions. If you are taking this course in a group you may then meet to discuss your answers.

- What does the constitution in your country say about parliament’s powers over budgets?
- How would you describe the budget approval process in your country’s parliament? Is it effective?
- Assess the breadth of budgetary information that is provided in your country against the OECD Best Practices for Budget Transparency. To what extent would you say there is sufficient and high quality information available?

**Relevant internet resources**

Constitution Finder  
http://confinder.richmond.edu/

International Constitutional Law Index  
http://www.oefre.unibe.ch/law/icl/index.html

International Budget Project:  
*Legislatures and Budget Oversight*  
http://www.internationalbudget.org/themes/LEG/index.htm

Congressional Budget Office:  
http://www.cbo.gov

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