

# Legislatures and Budget Oversight: Best Practices<sup>1</sup>

Warren Krafchik, International Budget Project  
Joachim Wehner, London School of Economics

May 2004

*Presented at the Open Forum held by Kazakhstan Revenue Watch in Almaty on April 8, 2004.*

## 1. Introduction

Parliament's 'power of the purse' is a fundamental feature of democracy. The vast majority of democratic constitutions require appropriations and taxation measures to be approved by parliament in order to become effective. For this requirement to be more than constitutional fiction though, parliament must ensure that the revenue and spending measures it authorizes are fiscally sound, match the needs of the population with available resources, and are implemented properly and efficiently.

From a long term perspective the influence of national legislatures on budget policy making has declined in most industrialized countries. Several developments explain this trend. The emergence of disciplined political parties reined in parliamentary independence. Devolution of spending, and to a lesser extent of revenues, has chipped away at the comprehensive control of public funds by national legislatures. In addition, the massive expansion of entitlement spending in the 20<sup>th</sup> century made budgets much more rigid and thus decreased the margin for active legislative engagement. With the growth of public spending and the increasing complexity of public finances, the executive budget proposal became the foundation of subsequent parliamentary action.

Conversely, in many developing and transition countries, a substantial number of parliaments are moving towards greater budgetary activism. Perhaps the primary reason for this latter trend is that democratization and constitutional change have opened up possibilities for legislative participation in many previously closed systems, notably in parts of Latin America, Africa and central and eastern Europe. But, a more effective role for parliament in the budget faces several obstacles, both political and technical. The aim of this paper is to consider the conditions for effective parliamentary oversight of the budget based on a review of best practices in a set of developed and developing countries.

---

<sup>1</sup> This paper draws on previous research by the authors. For references and other resources on this topic contact Warren Krafchik at [Krafchik@cbpp.org](mailto:Krafchik@cbpp.org) or go to: [www.Internationalbudget.org/themes/LEG/Index.htm](http://www.Internationalbudget.org/themes/LEG/Index.htm)

## **2. Why and how should parliament be involved in the budget process?**

Stronger parliamentary budget oversight has many supporters and detractors. Let's consider some of the arguments. On the positive side, it is argued that effective parliamentary oversight of public budgets is central to democratization and improved budget management. As the representative of citizens, parliament has a role to ensure that the nation's priorities are adequately reflected in the nation's major fiscal plan, the budget. Parliament also has an oversight function. While the executive has responsibility for drafting and implementing the budget, the role of parliament is to check that this responsibility is successfully fulfilled. But, parliament's contribution can go beyond this. As the institution and its technical staff develop expertise in budget oversight, they can assist government departments to plan and implement budgets more effectively and efficiently. In the process parliament can help to curb corruption, reduce the gaps between planned and actual budgets, and engender greater efficiency in departmental spending, amongst other contributions.

Nevertheless, it is argued that parliament usually does not have sufficient information or technical capacity to play an effective role in the budget process. The executive will always have a greater information base than the legislature and parliament will enter the process at a late stage after roughly a year of secretive departmental negotiations. Moreover, most parliamentary committees in developing and transitional countries do not have sufficient technical research, or even administrative, capacity.

Obviously, these constraints can be overcome. It is the executive's responsibility to see to it that parliament does have a sufficient information base to carry out its work. In most cases, the problem does not arise from a lack of information (or the executive's functions would also be in peril), but from a lack of willingness in the executive branch to share the appropriate information with parliament. Building independent research capacity in parliament is another requirement for effective oversight that will require additional resources, but not as many as is often projected. Our rough calculations in one case suggested that parliament can satisfy its initial requirements with an increase of 15 per cent in the parliamentary budget, which could easily be compensated with cuts in the parliamentary travel or catering budget for instance. This would enable the establishment of a skeleton research staff and the ability to subcontract other research tasks to independent civil society research organizations.

A more troubling concern is that an expansion of parliamentary influence on budgets can lead to a deterioration of fiscal discipline. Can parliament be more disciplined as well as more independent in budgetary matters? Not all parliaments will be successful in striking this balance, but there is evidence that institutional engineering can help to reconcile legislative activism with fiscal prudence. In particular, spending can be kept under control by having the legislature fix overall spending levels before considering sectoral spending. Many OECD country parliaments proceed in this way, some of them by passing a separate piece of legislation to fix the aggregate totals before the annual budget is considered. This decision making structure can be complemented with a parliamentary process that tasks the budget committee with enforcing the overall spending limit and dividing the total among sectors.

Other devices are available to safeguard fiscal prudence in the face of rising parliamentary activism. For instance, some countries have adopted fiscal rules that constrain budget makers, such as fiscal responsibility legislation and balanced budget requirements, albeit with varying levels of success. In addition, legislatures should have reliable estimates of the budgetary effects of amendments over the short and medium term, and when appropriate, the long term. The costing of amendments can stimulate a transparent and thorough consideration of their fiscal effect in particular when these projections are made publicly available. Professional costing requires strong budget research capacity in the legislature, and access to relevant data.

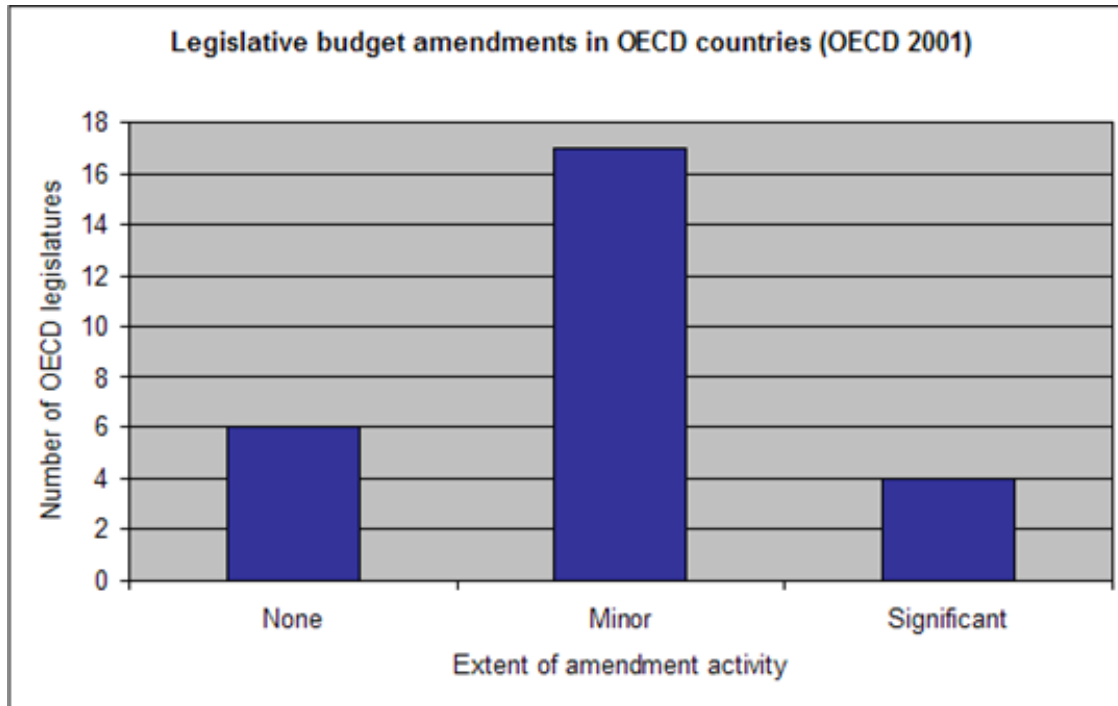
In sum, there are strong arguments to ensure that parliament can play an effective representative and oversight role over the budget. Over time, with sufficient resources parliament can also add value to budget planning and management. While there might be a valid concern that parliament can, in some circumstances, compromise fiscal integrity, this can be effectively managed with appropriate rules.

The important conclusion that we can reach from this overview is that parliament should concentrate its attention on the decisions and allocations between departments and within departments, rather than on the overall size of the budget and the deficit. This is not to argue that parliament should not have a say in macroeconomic policy, it is to argue that parliament should allocate proportionately more time to scrutinizing the distribution of resources against priorities at a department and sub-department level.

In addition parliament should pay very close attention to monitoring the implementation of the budget. In many developing and transitional countries, budget implementation is substantially different from approved budgets and this is an important problem underlying the ineffectiveness and inefficiency of expenditure. Monitoring budget implementation should be the second priority for parliamentary budget oversight. Given that information on budget implementation is especially weak in many countries, securing greater timely and accurate information on budget implementation should be a priority for parliamentary efforts to increase their own budgetary oversight powers and capacity.

### **3. International best practices**

If we accept that parliament should play a more effective role in the budget process, what can we say, based on international experience, about the conditions that are required for parliament to play this role? If we take the number of parliamentary amendments as a yardstick, international evidence shows that some parliaments have much more influence than others.



Parliaments differ substantially in their degree of influence on budget policy. The most powerful legislatures are those that have the ability to write the budget. The US Congress sometimes functions as a budget making legislature. Although the president submits a draft budget to Congress, in some years observers pronounce that draft 'dead on arrival' and Congress writes a new budget. This level of congressional power to shape budgets is probably unique, and only a few other legislatures make significant changes to draft budgets on a regular basis.

At the opposite end of the spectrum are legislatures that have ceased to exercise any significant influence on budget policy, and merely rubberstamp executive draft budgets without any changes. This group is primarily comprised of Westminster type parliaments, where any successful amendment to the budget is considered a vote of no confidence in the government. Although some parliaments cannot or do not change the budget, it is also true that the Westminster model has changed greatly in recent decades. There is now substantial presentation of information on the fiscal framework ahead of the tabling of the budget, and often more parliamentary debate, backed by greater transparency. If the parliament's views are effectively taken into account during the drafting of the budget or through a process of consultation on medium term budget policy, this might diminish the need for amendment activity. However, it is often difficult or impossible to pinpoint such non-amendment legislative impact on the budget.

Most legislatures fall into a middle category: they approve the budget proposed by the executive with minor changes only. This group includes the legislatures of the Nordic countries, most of continental Europe and Latin America, and some Asian countries. To say that budget changes are minor does not mean that they are insignificant. When ministers fail to convince the legislature of the necessity of certain expenditures, cuts of the relevant items can free up resources to

address more urgent needs elsewhere. A moderate level of amendment activity also demonstrates to the executive that it needs to take legislative scrutiny seriously, or face the consequences.

Let us turn now to explaining why there are such differences in the level of parliamentary engagement with budgets across different countries. Our research indicates that there are a number of factors that can help to explain these differences.

### 3.1 Constitutional powers

Amendment powers can be grouped into broad categories. Unrestricted powers generally imply the ability to vary expenditure and taxation in either direction, without the consent of the government. The US Congress and legislatures in the Nordic countries fall into this category, for example. Restricted powers refer to the power to amend the budget within set limits, often relating to increases in total expenditure. Within the category of restricted powers, balanced budget powers refer to the ability to raise expenditure items or decrease revenue as long as there is a counter-balancing charge to maintain the budget balance. This arrangement is used in Romania, for instance. The UK is an example that occupies the other end of the spectrum. The House of Commons may not increase expenditure or revenue items. The only legitimate amendments are those that reduce requested expenditure or abolish a tax or duty. Only the government can introduce or increase an expenditure or tax.

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. 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.

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

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

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

Despite these differences, most systems allow a fairly high minimum level of amendment powers. Although there are often restrictions on increasing expenditure, the power to make reductions in expenditure can be considered the lowest common denominator. Changes to

taxation are usually also possible, although restrictions are varied. It is therefore difficult to explain the large differences in the magnitude of actual amendments highlighted above simply with reference to differences in formal powers. Observed budget changes are greater than observed variations in amendment powers. Effective amendment power depends on a further set of factors that determine the extent to which parliaments are able to utilize conferred powers.

### *3.2 Political dynamics*

Variations in the budgetary influence of the legislature are to a large extent a function of political dynamics. Parliamentary systems tend to be conducive to cooperative legislative-executive relations. The government is directly dependent on majority support in parliament, and the electoral fortunes of parliament and the executive are intertwined. For parliament to fundamentally rewrite the executive budget proposal would most likely be tantamount to a vote of no confidence in the government. Nevertheless, within these boundaries some parliamentary countries play a very effective role in prioritizing spending and monitoring budget implementation. Conversely, the separation of powers in presidential systems can lead to great antagonism in executive-legislative relations, as the legislature is much more likely to be critical of budgets and policies proposed by an executive with whom it may have little in common.

Budgeting takes place in a broader political context, and budgets reveal the power relations of the political actors that participate in the process. The legislature's actual rather than theoretical impact on the budget is largely determined by the party political landscape. If no single party controls the legislature, the executive will have to assemble the support of a number of parties to have its budget passed. It is likely to have to make concessions during this process. Concessions are less likely to be needed in cases where a single party controls the executive and the legislature. 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.

### *3.3 Budget transparency and information*

The first challenge to overcome towards a more effective role for parliament is access to sufficient timely, accurate and useful information on the budget. This requirement includes information on the budget proposal, the implementation of the budget and on the internal and independent audit of the budget. Best practice in budget information is to be found in the US for presidential systems and in New Zealand for parliamentary systems. But, best practice goes far beyond the above requirements to include not only extensive information on budgetary inputs, but also on expected outputs and outcomes. Developing and transition countries would do well to focus first on the input side.

As regards the budget proposal, the information should include a thorough review of the assumptions backing the budget and on macro-economic policy. It should include sufficient disaggregated information to assess the distribution of spending within departments, at least including major programs and line items, backed by clear program objectives. Over time these categories should remain constant to enable comparison.

The second major area of information to assist parliament in its oversight role is on budget implementation. The primary source of information here is accurate updates on both actual expenditure and revenue against the approved budget. Technology exists to provide these on-line in real time as in best practice countries, but monthly or even quarterly information would prove a valuable contribution to better matching plans and implementation. As argued above, closely watching budget implementation should be a priority task in the parliament. This implies that gaining access to accurate information to do this effectively should be one of the first information demands a parliament makes of the government.

The third major area of information required for effective parliamentary involvement is on auditing. In most countries an internal government auditor will exist and will have valuable information on how the government performed relative to its budget plans. In some countries, such as Mexico, parliament and the public have access to this information. In most countries, however, no-one outside of the executive has access to this information. This underlies the importance of an independent auditing institution, such as the Auditor-General or Supreme Audit Institution.

The oversight mandate of an independent audit office is complementary to the oversight mandate of parliament. The former should have the power to collect the information on government performance, while the latter should have the power to use this information to call the government to account. So, timely, quality information from an independent auditor is a third information requirement for parliament's effective role. Best practice here is for the audit to be conducted within six months of the end of the financial year. In best practice countries, the auditor-general is appointed and can only be removed by parliament, and reports to a designated and appropriate parliamentary committee.

### *3.4 The role of committees in the budget process*

Actual ability to influence budget policy is about matching formal powers with the capacity to utilize these powers. The international literature and our research suggest that where committee involvement in the budget is weak, broad criticism restricted to general debate in the house will prevail. Where committees are the engine of parliamentary budget scrutiny, there is more of a chance that detailed and more technical engagement will predominate over political posturing. In most countries a finance or budget committee accepts responsibility for the process, alone or as a coordinating body for other relevant committees. The international trend seems to be towards broader committee consultation. One example is India, where since 1993 the budget is examined by specialist sector committees. Since 1970 a similar development took place in Australia with the introduction of a committee stage in the Senate. In Africa, the Ugandan Parliament recently

created a new budget committee supported by a parliamentary budget office. In short, many parliaments have realized the value of committee involvement in the budget process.

It seems that strong coordination from the budget committee, combined with specialist sector input, supports strong parliamentary involvement in the budget process. Sweden carried out reforms in the 1990s that gave the finance committee overall responsibility to fix aggregate and sectoral spending ceilings, while departmental committees prioritize budgets within these limits. Unless there is a process to coordinate inputs from different committees, parliament will not be in a good position to reprioritize spending between votes. For instance, in India and Australia the committees involved are able to scrutinize departmental budgets in detail. However, there is no coordinating mechanism to support shifts between votes. This acts as a strong disincentive for parliamentary changes to the budget. Parliamentarians are less likely to enact cuts if they are not able to shift funds elsewhere.

**Table 2: What best describes the committee structure for dealing with the budget?**

Committee structure	Number of countries	Percentage of total
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.	19	47,5%
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.	6	15%
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.	7	17,5%
Sectoral committees deal with appropriations for each respective sector. No budget committee is in place or offers only technical assistance.	2	5%
Other	6	15%
<b>Total</b>	<b>40</b>	<b>100%</b>

Source: OECD (2003).

### 3.5 Timing of the budget process

Time availability determines the capacity for detailed analysis. Where parliament and its committees do not have sufficient time for analysis, their role to suggest amendments is weakened. In the US the congressional budget process lasts almost a year, allowing Congress to make and shape the budget. In the 1970s Congress changed the beginning of the federal fiscal year from July to October to allow it more time to develop the budget. By contrast, 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 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. A minimum of three to four months is required to enable parliamentary scrutiny of the budget.

**Table 3: How far in advance of the beginning of the fiscal year does the executive present its budget to the legislature?**

	Number of countries	Percentage of total
Up to two months	10	26%
Two to four months	23	59%
Four to six months	5	13%
More than six months	1	3%
<b>Total</b>	<b>39</b>	<b>100%</b>

Source: OECD (2003).

### 3.6 Independent research

Sufficient time for committee debate is unlikely to lead to budgetary change unless parliamentarians and committees have access to independent research expertise. The ability to change budgets depends on detailed scrutiny that is only possible with detailed analysis. Committees are likely to depend on departmental expertise during the initial stages of a new system. However, this is neither sufficient nor satisfactory in the longer term from either the department or from the committee's point of view. In the short term, it is also possible for committees to share research expertise. In the longer term, given the size and technical nature of the budget, effective research services are likely to depend on dedicated, specialized personnel.

Many of the more active legislatures have substantial budget research capacity. The Congressional Budget Office in the US 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?**

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

Source: OECD (2003).

#### **4. Where to start: First principles**

Although there is evidence of greater legislature activism in a number of developing and transitional countries, most cannot hope to immediately emulate best practices. So, what are the most essential building blocks to put in place? And what is practical to achieve in environments that may not have a tradition of effective parliamentary budget involvement?

First, not much can happen without information and transparency – timely, accurate, useful information. We mentioned three types of essential information above: disaggregated draft budgets, budget implementation data and audit findings. Information on draft budgets is obviously the first place to start, particularly information below the department level to enable a thorough discussion of departmental expenditures. Beyond this, quality and timely information on budget implementation is critical to help parliament improve the quality and effectiveness of expenditure.

The second priority should be to build the capacity of the budget-related parliamentary committees. The place to begin is to provide these committees with independent research capacity. The beginning need not be elaborate. A skeleton staff of three skilled researchers with funds to outsource research where necessary can be an adequate beginning. This can be achieved by a modest addition to the parliamentary budget or reprioritization of existing parliamentary resources.

Thirdly, it is important to recognize that parliamentary budget activism comes after centuries of exclusive executive mandate. The assumption that parliament should rubber-stamp the budget, at best, still exists in most countries and parliament will have to fight to challenge and fight this assumption. (In fact, they will probably have to fight this case in parliament as well.) To engage in this battle, parliament will need all the allies it can get. For this reason it is important for parliament to build its own power by forming a coalition or partnerships with other independent institutions with an oversight mandate. The most obvious candidates here are civil society institutions, the media and the auditor general. A strong coalition or partnership between these institutions is an important way to build the arguments and skills to counter the tradition of executive dominance in budgetary matters.

In the process of enhancing budget oversight parliament will over time build allies within the executive branch that are also set on improving the allocation and management of public resources. But, the beginning of the battle will be rough going. It is therefore worth remembering that the goal is a central element in democracy and governance – how to align the nation's scarce resources with the real needs of its citizens.