

5. Parliament's role in budgeting

In all OECD countries, the legislature has a traditional role in authorising public expenditures and revenue-raising. Over recent years, there has been a trend towards stronger engagement of the parliament across the full budget cycle, with more countries reporting an ex ante role. In many cases this is related to the division of the budgetary cycle into a fiscal policy semester, followed by a resource-allocation (budgeting) semester, which allows for a sequential engagement by parliament and its committees at various phases; in other cases, the ex ante engagement relates to signalling of policy choices and priorities. There is also a marked tendency towards parliamentary approval or discussion of medium-term budgetary frameworks, driven in part by the evolving fiscal framework within the European Union.

As to the powers of the legislature, more than half of OECD countries report wide-ranging powers to amend the budget; but such powers are not widely used in practice, in part because the government's authority over the budget is usually a 'confidence matter' which can precipitate a change of government. Two-thirds of OECD countries have a single budget committee in parliament; the sectoral committees, which are most closely linked to policy issues in their areas, generally have weak links to budget policy-making – even on issues such as performance budgeting where a stronger sector-specific role might be envisaged. About one-third of OECD legislatures have a specialist research unit for budget analysis, and Parliamentary Budget Offices have become much more prevalent across the OECD.

5.1. Introduction

The OECD Recommendation on Budgetary Governance (2015) states that “parliament has a fundamental role in authorising budget decisions and holding government to account” and that governments should “provide for an inclusive, participative and realistic debate on budgetary choices, by offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both *ex ante* and *ex post*...”.

OECD legislatures are subject to a range of different legal frameworks, procedures, customs, and traditions, but the vast majority can be termed "budget-influencing", with the authority and capacity to amend or reject the executive's budget proposal.

While the budget approval phase is still where most legislatures come to the fore in the budget process, there is a trend away from treating the budget as a set-piece event towards continuous financial scrutiny throughout the year.

The sections below examine several institutional design features and practices that can enhance legislative influence in the budget process while also promoting fiscal prudence. Of course, these are only part of the story. The budgetary oversight culture of the legislature also reflects factors such as the constitutional division of responsibilities, party and electoral systems, whether governments traditionally have large majorities or whether coalition governments are the norm, and constraints related to the level of mandatory spending and available fiscal space. Moreover, it is important to keep in mind that a parliament is not a monolithic institution but a collection of actors with diverse and changing strategies and incentives in the budgetary process.

5.2. Encouraging fiscal responsibility

A realistic debate on budgetary choices takes into account overall fiscal constraint, including in the medium and longer-term. A budgetary process that informs and consults the legislature on fiscal policy and medium-term budget policy, and that takes the views of the legislature into account during the budget formulation phase, promotes transparency and encourages fiscally responsible legislative decision-making. Such a process may ultimately lead to less need for amendments in the budget approval phase.

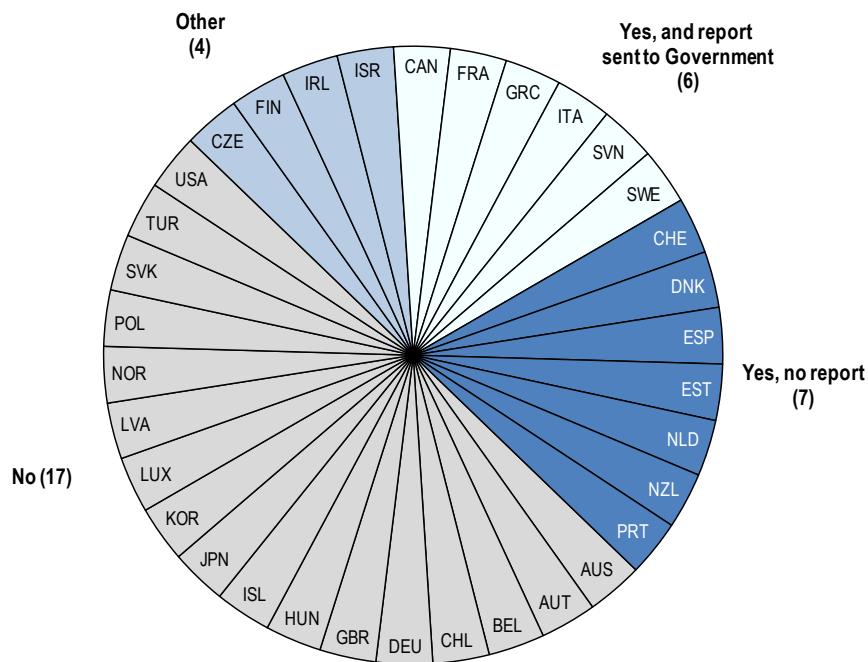
5.2.1. Pre-budget debate

The survey results point to a growing trend for OECD parliaments to debate the broad direction of fiscal policy, as well as budgetary priorities and trade-offs before the annual budget is submitted for approval. Although a similar number of countries reported that the government submits a pre-budget report to the legislature in 2012 (19 countries) and in 2018 (22 countries)¹, there is a marked change in the number of countries that report that the legislature holds a pre-budget debate – up from only three countries in 2012 to 13, or just over a third of OECD legislatures, in 2018. Of these about half send the results of the pre-budget debate as a report to the government.

Among the most well-known examples, the Swedish Riksdag, has a two-step legislative process in which the Spring Fiscal Policy Bill (submitted in April) allows for a more general debate on fiscal policy and the debate on the Budget Bill (submitted in September) covers the government's detailed spending proposals for the next budget year.

Several legislatures also reported that while there is not a formal debate in the plenary, the Budget Committee may engage in the pre-budget phase. In the Czech Republic the Committee on the Budget holds a pre-budget debate and passes a resolution on the budget strategy and convergence programme. In Ireland the newly established² Committee on Budgetary Oversight holds pre-budget hearings on budgetary priorities and issues a report to the plenary. In Israel the Finance Committee has at times chosen to have pre-budget discussions in order to signal their preferences during budget formulation.

Figure 5.1. Does the legislature hold a pre-budget debate?



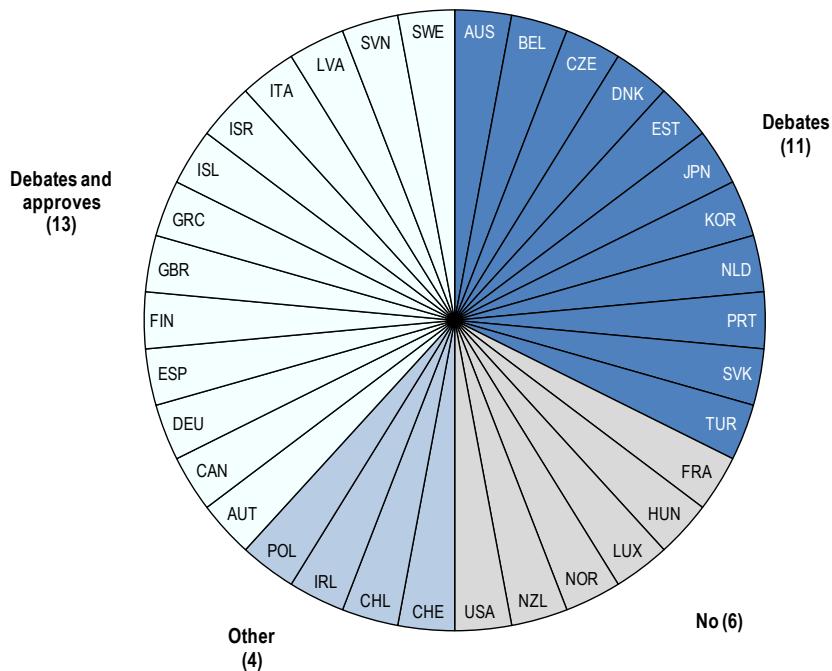
Notes: Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Question 1, OECD, Paris.

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5.2.2. Legislative scrutiny of medium term budgetary frameworks

Most fiscal measures have budgetary implications that go well beyond the annual budget. Legislative scrutiny of the medium term budgetary framework (MTBF) is now a common practice in OECD legislatures. Twenty-four OECD legislatures report that they debate the MTBF and 13³ of these report that they formally approve the MTBF.

Figure 5.2. Does the legislature debate or approve the medium-term budgetary framework?

Notes: Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Question 3, OECD, Paris.

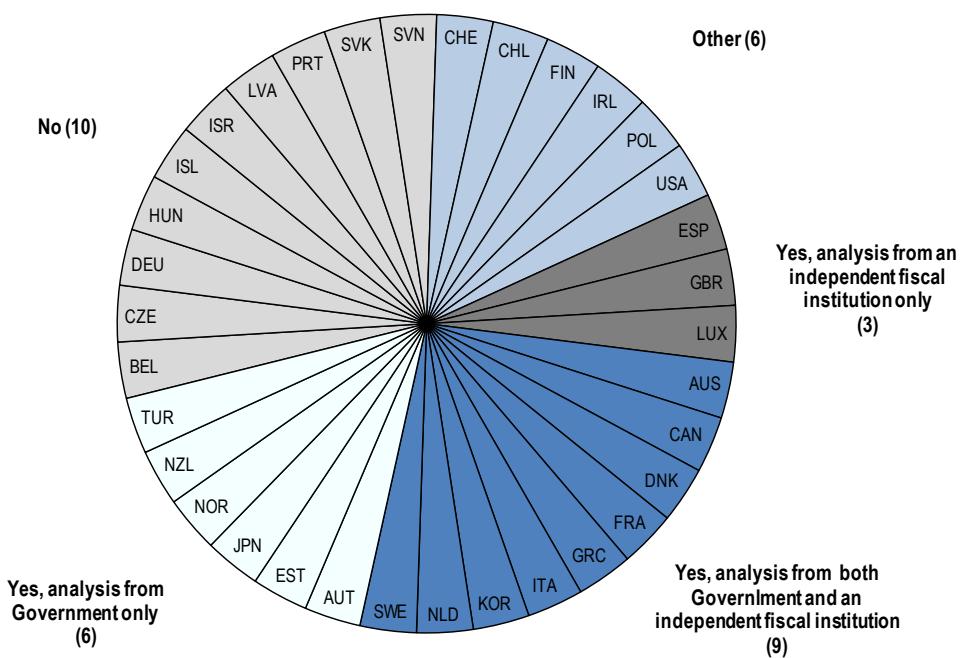
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5.2.3. Legislative scrutiny of long-term sustainability

Medium-term analysis provides the basis for long-term analysis, another important tool to help illustrate the risks and allocative trade-offs societies may be faced with when pursuing sustainable public finances. For most OECD countries the importance of long-term analysis has only grown as societies age and as the impact of programmes that involve intergenerational transfers expands.⁴

Independent fiscal institutions provide an important source of long-term analysis (typically 10-50 years) for many OECD legislatures. Since the *2012 OECD Budgeting Practices and Procedures Survey* the number of IFIs in the OECD has doubled and the majority of these new institutions produce long-term sustainability analysis, although this analysis may not always be taken up in a meaningful way by the legislature yet.

Figure 5.3. Does the legislature receive and debate long-term sustainability analysis?



Notes: In Finland the parliament receives long-term sustainability analysis from government and can also ask the IFI for additional long-term analysis if it wishes. While the Latvian Fiscal Discipline Council is not required to produce long-term sustainability analysis, it is beginning to undertake this type of analysis at its own initiative.

Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Question 4, OECD, Paris

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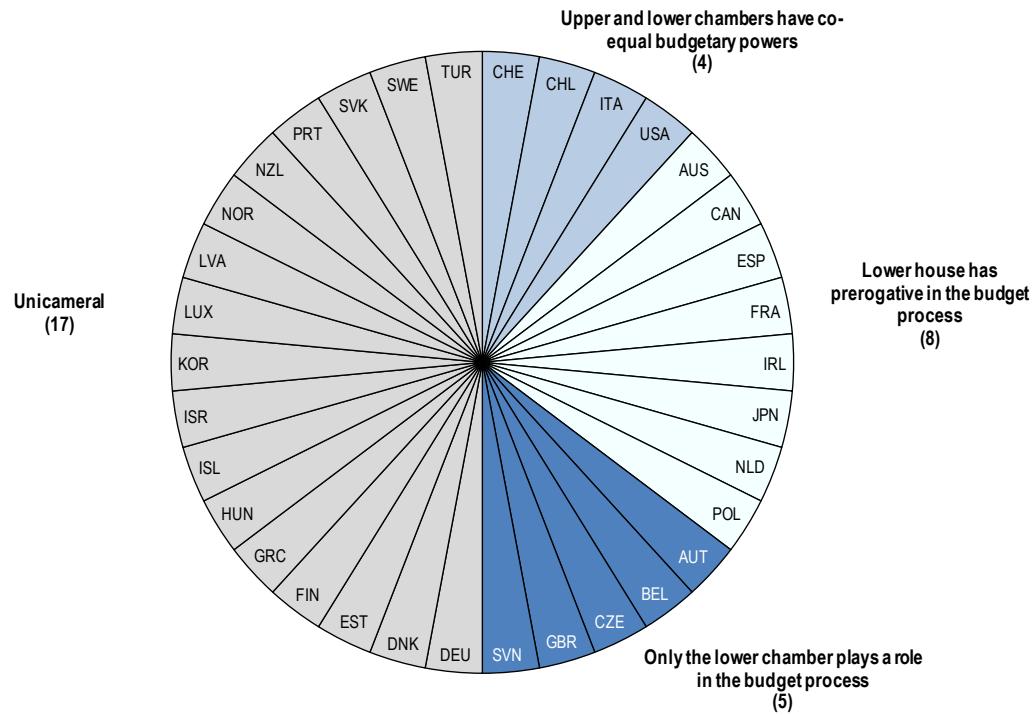
5.3. The budget approval process

5.3.1. Bicameralism – what role for upper houses?

Half of OECD legislatures are bi-cameral, with upper chambers typically playing a much more limited role in budget approval, or no role at all. For the majority of bicameral legislatures there are different rules for the upper chamber regarding budgets and other financial proposals. For example, upper chambers tend to have a much shorter period to debate the budget, and they often do not have the right to amend or reject budget bills.

Only four OECD parliaments report that the upper and lower chambers have co-equal budgetary powers (Chile, Italy, Switzerland, and the United States). It is more common for the lower house to have the prerogative in the budget process. In the Netherlands, for example, only the lower chamber can amend the budget while the upper chamber can only agree or disagree.

Figure 5.4. Role of each chamber in the budget process



Notes: Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

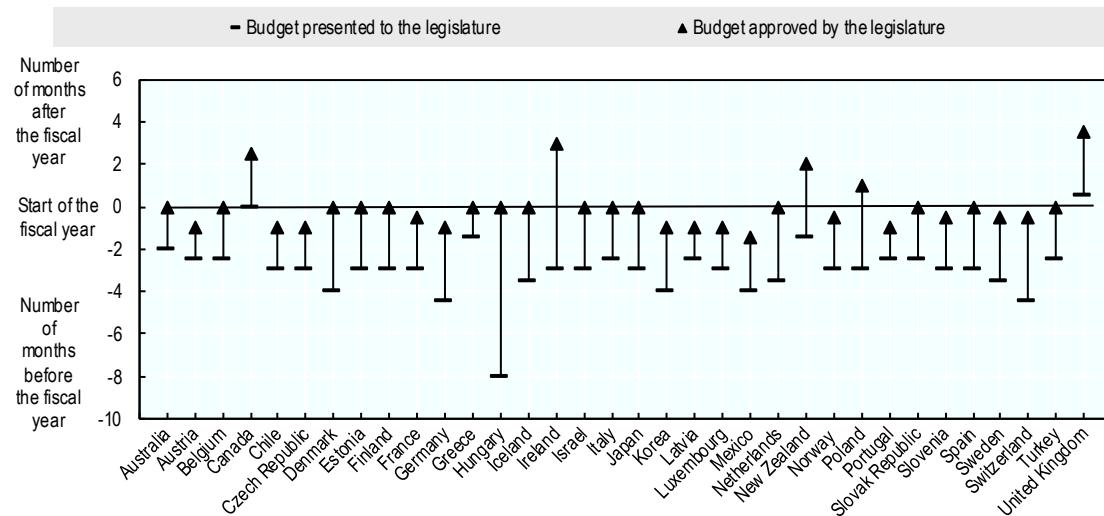
Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Questions 5 and 5a, OECD, Paris.

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5.3.2. Time available for legislative debate

Legislatures and their committees require an adequate amount of time to review and debate budget documents, and propose and debate amendments. The *OECD Best Practices for Budget Transparency* (2002) recommend that the executive should submit its budget proposal to the legislature at least three months prior to the start of the fiscal year and that the legislature should approve the annual budget law prior to the start of the new fiscal year.

Around 60% of OECD countries meet the former recommendation and the vast majority meet the latter. The exceptions tend to be in Westminster style parliaments where the estimates tend to be approved after the start of the fiscal year (including Canada, Ireland, New Zealand and the UK). Ireland stands out as the sole example where the formal legislative appropriation of moneys for the budget year (via the Appropriation Act) does not take place until the end of the budget year, after the money has been spent.

Figure 5.5. Time available for legislative debate of the budget proposal

Notes: Where timelines differ for the approval of tax and expenditure policy measures, the timeline for the approval of expenditure measures is shown.

In Hungary since 2015 the budget is submitted to the parliament at the end of April. While the parliament legally has until end December to approve the budget, in practice it has been approving the budget in early July before the summer recess; In Ireland all of the Estimates that have been voted by the legislature for the budget year are not finally implemented in legislation until the annual Appropriation Act is passed. It is usually one of the last pieces of legislation to be enacted each year. Statutory confirmation of the appropriation of moneys, pursuant to Article 17.1.2 of the Constitution, therefore takes place after these moneys (or almost all of them) have been spent, almost 12 months after the start of the budget year.

Data for the United States are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD Budget Practices and Procedures Survey, Question 7a+f+h, OECD, Paris.

StatLink <http://dx.doi.org/10.1787/888933946837>

5.3.3. Voting on budget totals

In addition to the practices described earlier in the chapter, a budget approval process where the legislature votes first on the budget totals, providing a strict frame for the subsequent debate on allocative choices and potential amendments, can further promote fiscal responsibility and focus attention on budget priorities. Some OECD legislatures do this by passing a separate piece of legislation to fix the aggregate totals before the annual appropriations and revenue measures are considered.

This practice may be complemented and strengthened by a committee process where the budget committee is responsible for setting the budget totals and the aggregate sectoral allocations and ensuring that they are respected, while sectoral committees allocate funding to individual appropriations in their expenditure areas within the agreed totals (see section on the role of committees below).

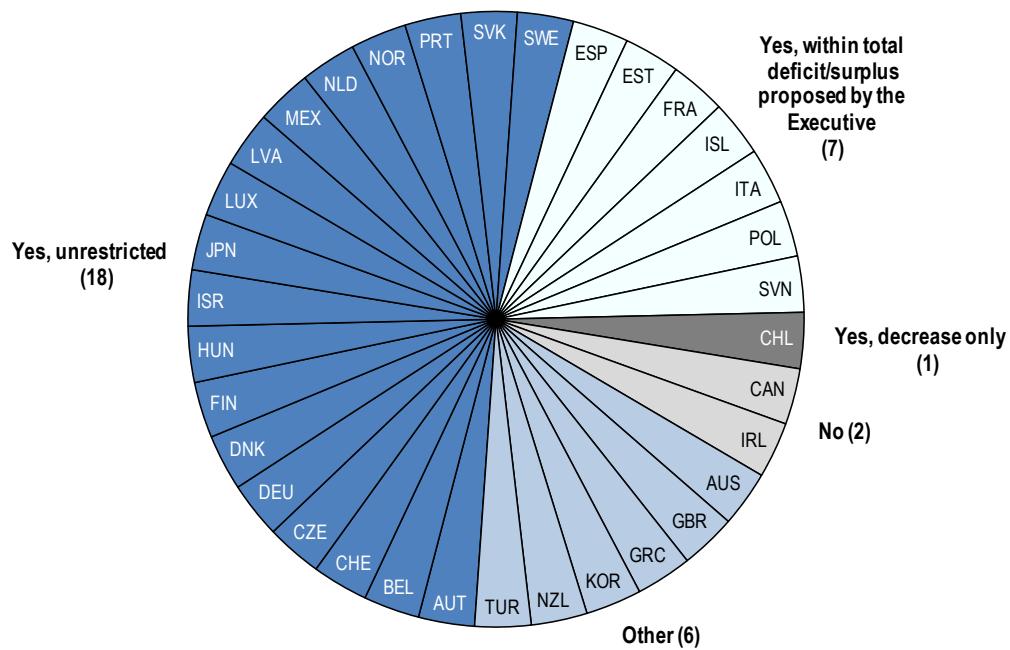
Just under two-thirds of OECD countries report that the legislature votes on the budget totals (aggregate and specific ceilings for expenditure areas). The response is essentially the same as that for the 2012 survey, with only Greece reporting that in the meantime they have introduced this practice.

5.3.4. Amendment powers

Amendment powers are a key indicator for the potential of the legislature to impact the budget. At one end of the spectrum, the legislature in the United States has the power to rewrite the government's proposed budget and does so in practice. At the other end are legislatures such as Ireland that can only approve or reject the budget.

Over half of OECD countries report unrestricted amendment powers. The second most common practice is that the legislature can amend the budget within the executive's aggregates. Similarly in New Zealand, the legislature may propose amendments to the budget subject to an executive veto if the amendment would have more than a minor impact on the government's fiscal aggregates. In Turkey the Budget and Plan Committee can make any changes, but in plenary session the legislature cannot increase expenditures or decrease revenues. Chile is the only country that reports that the legislature can only decrease spending. In Australia the legislature can only make amendments on new policies. In Korea, the executive must approve the amendments proposed by the legislature.

Figure 5.6. Formal powers of the legislature to amend the budget proposed by the executive



Notes: Data for the United States are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

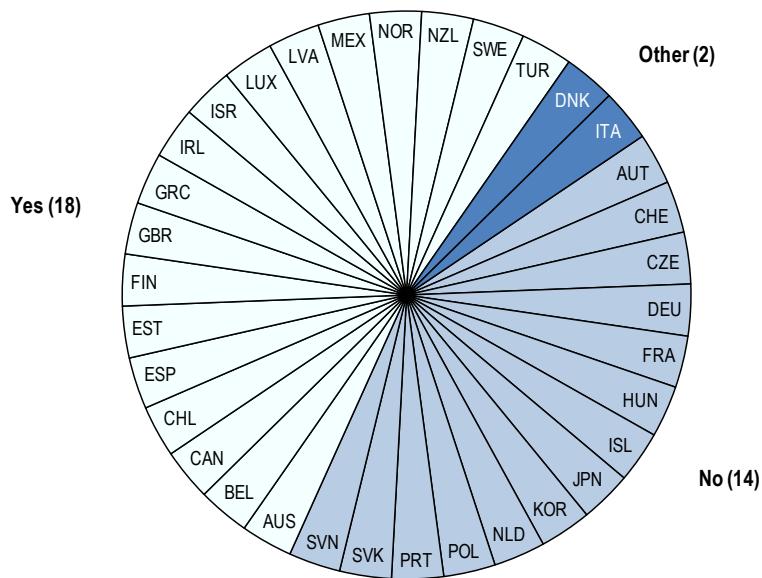
Source: OECD (2018), OECD Budget Practices and Procedures Survey, Question 39, OECD, Paris.

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But formal amendment powers do not tell the whole story. In practice, most OECD legislatures only make minor adjustments to the executive's budget proposal. Where government has a large majority in parliament, it is unlikely that its budget will be significantly changed. Fiscal rules and mandatory spending may constrain the ability of the legislature to make any significant amendments. Consultation and bargaining during the budget formulation stage may also reduce the size of the legislature's actual amendments during the approval stage. And in many countries, the legislature may effectively be restrained from using amendment powers as votes on the budget are considered confidence votes.

Although changes tend to be minor, this does not mean that amendment powers are unimportant. Arguably, even a moderate level of amendment activity signals to the executive that it needs to take legislative scrutiny seriously.

Figure 5.7. Notwithstanding the formal powers of the legislature to modify the budget, is a vote on the budget generally considered a vote of confidence in the government?



Notes: For Greece, it is a confidence vote in practice. Although Sweden answered yes, in 2014 when government failed to pass its budget, it reached a deal with the main opposition avoiding the need for snap elections.

Data for the United States are not available; Information on data for Israel:
<http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD Budget Practices and Procedures Survey, Question 40, OECD, Paris.

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5.4. The role of committees

Described as the “engine room” of the legislature, committees provide an opportunity for more in-depth, specialised scrutiny and can sustain an informed “accountability dialogue” with government ministries and agencies.

A strong budget committee can promote co-ordination and consistency in legislative budget action and facilitate fiscal discipline while involving sectoral committees allows the legislature to draw on their specific expertise when reviewing departmental spending plans (Posner and Park, 2007; Schick, 2002). In this way the parliamentary committee process can be viewed as mirroring that of the Finance Ministry vis-à-vis the line ministries.

In two-thirds of OECD legislatures a single budget committee is responsible for overall budget review and for co-ordinating varying levels of input from sectoral committees. A further eight countries have a committee review process in which the budget committee considers budget aggregates while sectoral committees consider sector specific appropriations. Only Australia and the UK do not have the equivalent of a budget committee. In Australia, committees in the lower house play little role and budget scrutiny is largely done through highly publicised estimates hearings in the Senate.

The vast majority of OECD countries use performance information in budgeting. Sectoral committees, which have developed significant subject expertise, may be best placed to review the performance information for their portfolios. However, in Germany the Budget Committee’s rapporteur system ensures that even without the input of the sectoral committees, the budget committee develops significant expertise on departmental budgets. Currently 21 OECD legislatures report that it is the budget committee and/or a subcommittee of the budget committee that has the main responsibility for reviewing performance information attached to the budget. Only in 11 countries do the sectoral committees take the lead (among these Greece and Italy indicated that both the budget committee and sectoral committees take the lead).

Giving the chairmanship of on oversight committee to the opposition signals a commitment to operate the committee in a nonpartisan and consensual manner. This is a common practice for public accounts committees in Westminster style parliaments (see Section 5.5 below). A handful of OECD legislatures have adopted a similar tradition for their budget committees, such as France, Germany, Hungary, Portugal, and Spain.

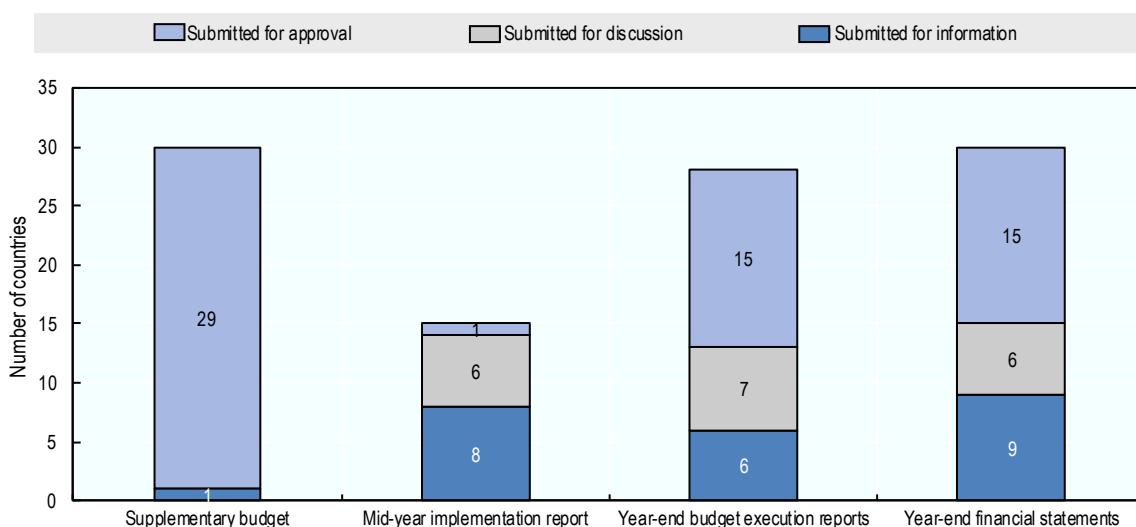
5.5. In-year and *ex post* oversight

After the budget is approved, the legislature continues in its budgetary oversight role. Oversight of budget implementation is facilitated by information on in-year actual spending and timely, comprehensible audit reports. In line with the OECD *Best Practices for Budget Transparency* around 70% of OECD countries report producing monthly financial reports⁵, giving a snapshot of budget implementation throughout the year. A further handful produce such reports on a quarterly basis only. Monthly reports support the information in the much more comprehensive mid-year review.

Any material changes to the approved budget should also be reviewed and authorised by the legislature. Over 75% of OECD countries need legislative approval for supplementary budgets. Legislatures may have little choice but to approve these requests but they can at least express policy concerns.

The year-end report is government's key accountability document. Legislative scrutiny of audit findings ensures that public funds have been used for the purposes intended, and that policies achieved their intended results. Many OECD legislatures have a specialised Audit or Public Accounts Committee to deal with the reports produced by the supreme audit institution. For others, this review takes place in the Budget Committee or a sub-committee of the Budget Committee. Despite this, two thirds report that there is no formal process for integrating the recommendations of the committee responsible for reviewing the year-end audited report into the following year's budget approval process.

Figure 5.8. Supplementary budgets and reports submitted to the legislature



Notes: Data for the United States are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD Budget Practices and Procedures Survey, Question 37, OECD, Paris.

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Nevertheless some examples have emerged of practices with the potential to strengthen the link between the audit phase and the subsequent budget approval phase. In Germany, representatives from the supreme audit institution attend and provide advice during the initial consultation meetings between the Budget Committee's rapporteurs and ministry officials, as well as the Budget Committee meetings where the reports and proposed amendments are presented. In Austria, the budget documentation shows the most recent and most relevant Court of Audit recommendations for different expenditure areas. In France specialised members of the Finance Committee are charged with ensuring that audit findings are taken into account in the subsequent budget debate.

5.6. Analytical support

Sufficient analytical capacity is a necessary prerequisite for a legislature to exercise its budgetary functions. Hiring adequate committee staff, allowing committees to consult or employ experts, and strengthening independent research capacity, all serve to enhance legislative effectiveness and redress the capacity imbalance between the legislature and the executive.

5.6.1. Committee staff

The number of budget committee staff varies widely across OECD legislatures and staff may have a legal background versus a technical background in budgeting. Two to three staff members is most common but numbers on the higher end range from 10 in Japan, 21 in Korea, 25 for each house in France, 28 in Turkey and 35 for the US House of Representatives and 47 for the US Senate.

In addition to the above, committees may seek outside advice. All of the respondents reported that their budget committee has the right to consult outside experts.⁶ Over a third also have the right to employ outside experts.

5.6.2. Specialised research services or staff

Over a third of OECD legislatures report that there is a specialised unit for budget analysis in the research services. Typically these units have around 10 staff, although Spain reports 2 staff and Turkey reports 40 staff. The UK House of Commons Scrutiny Unit has 14 staff. It supports departmental select committees and undertakes systematic reviews of the main and supplementary estimates, departmental annual reports and accounts, spending review, settlements, Budget Statements and Autumn Statements, among other things.

Some legislatures do not have a specialised unit but do report having a small number of specialised staff within the research services (between 5 and 7 FTE). This is the case in Canada, Czech Republic, Estonia, Latvia, and Norway.

5.6.3. Independent fiscal institutions (IFIs)

The growth of independent fiscal institutions (independent parliamentary budget offices and fiscal councils), has moved at a remarkably fast pace – they are now the norm, not the exception in OECD countries and some countries report multiple institutions.

Legislative budgetary discussions provide a unique opportunity to consider IFIs' analysis. Among the core functions common across IFI models, are a role in producing, assessing and/or endorsing macroeconomic or fiscal forecasting, monitoring compliance with fiscal rules, policy costing, long-term fiscal sustainability analysis, and supporting the legislature in budget analysis.

Table 5.1. Budget and staffing in select PBOs in the OECD

Country	Institution name	Year	Budget (USD)	Staffing (FTE)
Australia	Parliamentary Budget Office (PBO)	2017	5.1 million	40
Austria	Parliamentary Budget Office (PBO)	2017	1.1 million	8
Canada	Parliamentary Budget Office (PBO)	2018	3.9 million	27
Greece	Parliamentary Budget Office (PBO)	2017	0.6 million	16
Ireland	Parliamentary Budget Office (PBO)	2018	1.0 million	12
Italy	Parliamentary Budget Office (PBO)	2017	7.1 million	27
Korea	National Assembly Budget Office (NABO)	2017	13.1 million	138
Mexico	Center for Public Finance Studies (CEFP)	2016	2.7 million	60
US	Congressional Budget Office (CBO)	2016	46.5 million	235

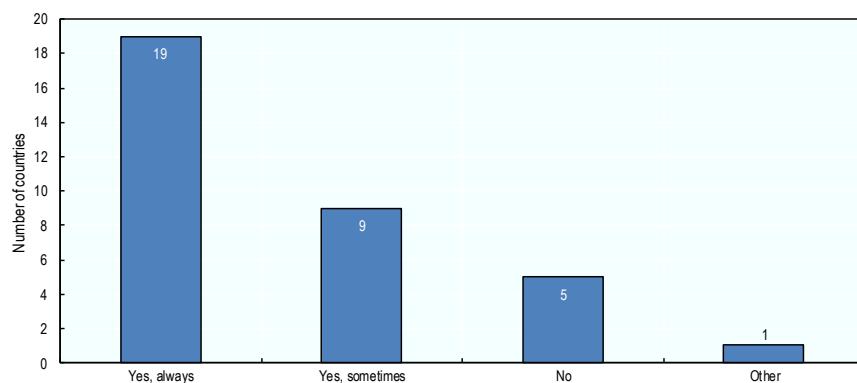
Note: National currency converted into US dollars as of September 2018.

Source: OECD IFI Database (2018).

5.7. Openness and public participation

Parliaments play a critical role in promoting transparency and accountability. At the same time, they too must work in a transparent manner and be accountable to the electorate on an ongoing basis. In recent years, parliaments, together with civil society, have increasingly engaged around the concept of parliamentary openness.

Figure 5.9. Are meetings of the budget committee open to the public?

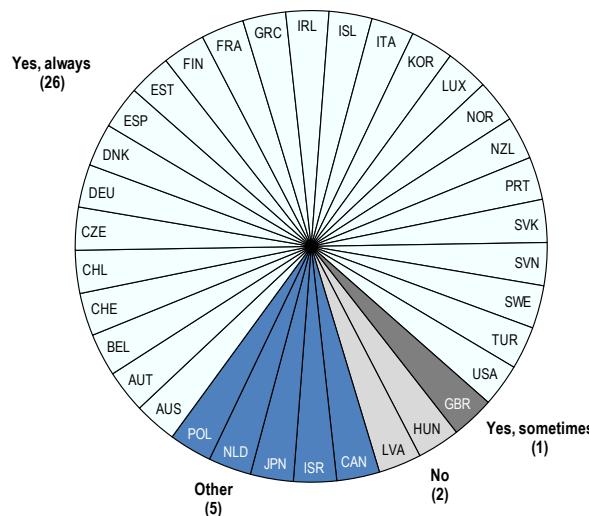


Notes: Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Question 9, OECD, Paris.

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Figure 5.10. Are committee reports published?



Notes: Data for Mexico are not available; Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>.

<http://dx.doi.org/10.1787/666732315002>.
Source: OECD (2018), OECD PBO Network Survey on Parliamentary Budgeting Practices, Question 12, OECD, Paris.

StatLink <http://dx.doi.org/10.1787/888933946932>

It is common practice for OECD legislatures to open committee meetings to the public or to broadcast committee meetings via television or the internet. The vast majority of OECD legislatures also publish committee reports.

The survey also asked about specific tools OECD legislatures are using to encourage public participation in the budget process. The results show that, at least where the budget is concerned, OECD legislatures continue to rely mainly on traditional participatory mechanisms such as public hearings of permanent committees (25 countries) but have been slow to adopt approaches that take advantage of digital tools with the potential to reach a wider group of stakeholders. This may be in part because parliaments have focused first on educational and transparency aspects when introducing a more participatory approach – e.g. sharing information with citizens and promoting greater public understanding of how parliament works on the budget. At the same time, the government may already have processes in place for public participation during the budget formulation stage.

Eight countries reported outreach through committee visits or town hall style events (Australia, Canada, Estonia, Finland, Japan, Portugal, Slovak Republic, and the US). Another seven countries reported using e-petitions (Estonia, Finland, Germany, Korea, Luxembourg, NZ⁷, and Portugal); while only France, Greece and Switzerland reported holding “digital debates on social media platforms” and only Austria reported that it is preparing to do “crowdsourcing of ideas for scrutiny” in the future. The Netherlands gave an example of an innovative new practice introduced in 2017, the “V-100”. Organised by the Dutch Parliament, the “V-100” brings together 100 participants from society who scrutinise the annual budget reports and make suggestions to committees on potential questions for the responsible minister.

It should be noted that this question does not capture some of the work parliaments have been doing to explain the budget to citizens. There is also the caveat that answers apply to the budget process to date, for example, the UK parliament has never had an e-petition or held a digital debate related to the budget but it has used both tools for other policy debates.

Notes

¹ Sometimes combined with mid-term evaluation of the previous year.

² Established in July 2016.

³ 10 of the 13 are also EU member states. EU requirements appear to have encouraged greater involvement of the legislature in medium term planning in EU member countries. According to the EU database on MTBFs, all EU member countries at least send medium term plans to the parliament and in the vast majority of EU member countries the parliament votes on the medium term plans.

⁴ Anderson, B. The Changing Role of Parliament in the Budget Process (2009)

⁵ In the case of New Zealand, there is no monthly report for the first two months of the year.

⁶ Not applicable for Australia and the UK.

⁷ The electronic petitions system was introduced in March 2018.

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