

## Budget Module Self-Test

### Unit 4: Parliamentary Approval of the Budget

#### 1. What does the constitution in your country say about parliament's powers over budgets?

As Unit 4 explains, a country's written constitution can spell out the formal budgetary powers of a legislature, but they can also be based on convention.

Some legislatures face constitutional restrictions on their right to introduce financial legislation and/or to amend financial legislation. Table 1 in Unit 4 shows the results of a survey conducted by the Inter-Parliamentary Union on the budgetary powers of 81 countries. It suggests that 40% of legislatures have unlimited powers to amend the budget (the United States one example). Other legislatures are constrained so as to protect the balance between revenues and expenditures suggested by the executive (a practice popular in francophone and Latin American countries).

Westminster-type legislatures cannot initiate financial bills and they have limited powers of amendment. Parliament may only reduce existing items proposed by the government.

Some countries, normally presidential systems, have executive veto powers. A package veto allows a president to veto a piece of legislation in its entirety. A line item veto allows a president to delete individual items in a financial bill (e.g. Chile).

Constitutional practice in some countries allows interim spending without explicit legislative authorisation (francophone countries). In the US there are no constitutional provisions for interim spending; government can quite simply shut down. Article 82 of the Nigerian Constitution allows the president to authorise withdrawals from the consolidated revenue 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. The practice of parliament passing votes on account is common in many Commonwealth countries: this allows parliament to provide an interim authorization pending final approval of the annual appropriations to avert government shutdowns.

#### 2. How would you describe the budget approval process in your country's parliament? Is it effective?

Parliament's role in the United Kingdom is to *respond* to the government through *scrutiny* of its proposals and actions and in doing so it *approves* and *legitimises* the process. However, it is widely acknowledged that the House of Commons is not adequately scrutinizing the Government's financial decisions and financial management.

In the UK the actual presentation of the Budget takes place in late March. The Chancellor lays the Financial Statement and Budget Report before the House as he opens his Budget. *The Provisional*

*Collection of Taxes Act 1968* allows the tax proposals outlined in the statement to come into effect immediately by a single motion taken after the Budget speech (without debate and usually agreed without a vote). A serious and substantive four-day general debate about the Budget follows in the Commons and exchanges between MPs and Ministers are open and public. The debate “provides not only a further opportunity to assess the economic situation, but subjects the government’s handling of the economy and the policies that flow from it to extensive scrutiny” (Rush 2005: p.239).

Parliamentary input to all stages in the budget process, including before the government presents its detailed spending and proposals in parliament, has improved with the initiative of the pre-Budget process, although the Budget is still very much an executive-led activity. Despite the progress made in the Pre-Budget Report process, parliamentarians have little effective input in the priority setting stage of the Budget process. However, Parliament is able to question government leaders, ministers and officials at both the pre-Budget report stage and following the Budget itself.

The Finance Bill, which gives permanent legal effect to the Resolutions announced in the Budget, is not published until three or four weeks after the Budget debate. The Hansard Society has proposed that the Finance Bill be subject to pre-legislative scrutiny by a parliamentary committee. This would undoubtedly strengthen Parliament’s role in holding government to account for the money it raises. Currently pre-legislative scrutiny is used for bills of a non-partisan nature and the Finance Bill, in contrast, generates highly-political debates with the government using its majority in the House to prevent changes to revenue proposals in the budget document.

A 1-day second reading debate takes place three or four weeks after Budget Day on the principles of the Finance Bill i.e. in much the same way as other second reading debates<sup>1</sup>. The committee stage of the Finance Bill is divided between a Committee of the Whole House (which normally takes two to three days) and a Public Bill Committee which meets regularly over a period of weeks. Clauses selected to be debated on the floor on the House are decided by the opposition. The report stage and third reading usually takes two days in the House. The Bill then goes to the House of Lords. In the UK the financial powers of the House of Lords are limited by the Parliament Acts 1911 and 1949; it has no power to overturn the Commons’ approval (formally, however, the Lords must give assent to all bills for them to receive royal assent).

The complexity and nature of the Bill is a challenge to effective scrutiny, yet the debates are said to be “some of the best argued and most effective of any held in the House ... the Finance Bill provides an annual opportunity for the opposition and back-benchers from both sides not only to examine critically the government’s proposals for new taxes or for variations in existing taxes, but also to propose their own changes in taxation including (by moving new clauses) reductions in existing tax burdens which the government themselves do not propose to modify. Many of the latter proposals are consequent upon representations made by a wide range of pressure groups and interested organisations, many of them hardened old campaigners” (Blackburn & Kennon 2003: p.361).

---

<sup>1</sup> One difference is that proceedings may continue beyond 10pm without the express agreement of the House (Standing order 15).

## **The Supply Process**

Estimates are debated in the Commons three days in each session. Estimate Days are used to discuss select committee reports related to one of the Estimates with the choice of subject resting with the Liaison Committee. The connection between the select committee report and the estimates is often tenuous and it is rare for a specific estimate to be reported on by a committee. A further concern is the time available between the laying of the Estimates and their agreement by the House which leaves little time for Committees to identify and report on matters of concern. The current requirement is for Estimates to be presented fourteen clear days before they are voted on in December and March. Yet this has created a further problem: Committee may be asked to nominate subjects for debate on the approaching Estimates Day before they have had an opportunity properly to consider the Estimate. This results in reports only indirectly linked to the Estimates being chosen for debate”.

At the end of the debate, a minister moves the motion (as financial initiative is a matter for the Crown) that the sum specified in the Estimates should be granted. There may be an amendment to the Estimates which are the subject of the select committee report, but the amendment can only seek a reduction in the sum. In practice this is rarely used and all other Estimates are voted on formally, without debate.

When a department’s spending has exceeded what Parliament has authorized, an excess vote is sought which seeks retrospective authorization. These are examined by the National Audit Office, which advises the Public Accounts Committee (PAC). The PAC must give its approval before an excess vote is put to the House for approval.

Votes on Account, covering about 45% of the estimated expenditure of each government department in the coming financial year, come before the House of Commons in November. This is necessary as there is a time lag of about 4 months between the beginning of the financial year (April) and the Appropriation Act. This ensures the Government has authority to spend funds between April and July.

The Consolidated Fund (Appropriation) Bills give legal effect to the estimates, excess votes and votes on account.

## **Spending Reviews**

We have seen in previous weeks that governments undertake spending reviews for decisions on the allocation of public money to particular departments and to priority areas for public spending. In the United Kingdom this is a top-down process although there are debates in the House: however, the three-year spending plans following a Spending Review in 2000 were debated by the House of Commons not on a motion to approve them but on an adjournment motion. The Liaison Select Committee has noted the “disparity between the five days used for the Budget and the handling of both spending Reviews and the Pre-Budget Report as ministerial statements allowing only a short period of

questions to the Minister.” The Committee has argued that the Pre-Budget Report and the results of Spending Reviews be the subject of a day’s debate on the floor of the House.

**3. 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?**

The OECD recommends the following types of budget documentation that ideally should be available:

- 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.

(OCED (2001) <http://www.oecd.org/dataoecd/33/13/1905258.pdf>)

Bastida & Benito (2007)<sup>2</sup> analyzed a sample of 41 countries to assess transparency in budget practices according to the OECD’s recommendations above. They found an average fulfillment of 56.4%. New Zealand is rated as the most transparent country in the sample with Uruguay at the bottom. Some developing countries meet more than 65% of the OBP suggestions (Bolivia, Jordan and Chile) while Austria, Spain and Germany are well below average. The general finding of their survey was:

“Transparency is negatively correlated with corruption and positively correlated with economic development. Countries receiving external and technical support meet fewer OBP recommendations than countries not receiving it. Considering the political framework, both progressive and conservative governments reach similar transparency levels. OECD members do not significantly fulfil more OBP suggestions than non-members”.

The United Kingdom is rated just above average (57.5% compared with 56.4%). The budget is rated as comprehensive, encompassing all government revenue and expenditure with detailed comment on each revenue/expenditure programme. Information on medium-term perspectives is provided and a pre-budget report is issued stating government’s long-term objectives for forthcoming budget and two following fiscal years, highlighting total level of revenue, expenditure, deficit/surplus and debt. However, in the UK the pre-budget report does not encourage debate on budget aggregates and how

---

<sup>2</sup> See Public Administration Vol. 85, No. 3, 2007 (667–716)

they interact with the economy. It is also released later than one month prior to the introduction of the budget proposal and the draft budget is not submitted to parliament far enough in advance to allow Parliament to review it properly.

The UK government does not issue monthly reports showing progress in implementing the budget, including explanations of any differences between actual and forecast amounts, but does provide a mid-year update on the implementation of the budget, including an updated forecast of the budget outcome for the medium term. The recommendations on year-end and pre-election reports are not practiced in the UK, but information on the long-term sustainability of current government policies is normally provided (although this does assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long term (10-40 years).

As mentioned previously, the Liaison Select Committee has argued that the quality of the financial information provided to Parliament needs to be improved as it does not meet the needs of Members.

“Clear, comprehensive, accurate and timely information about the Government’s revenue and expenditure is fundamental to Parliament’s financial scrutiny. The problem at present is the clarity and comprehensiveness of the information provided. Parliament is not currently receiving the information required for effective financial scrutiny.”