Good Practice in Parliamentary Budget Scrutiny:

International Comparisons

Prepared for the Budget Process Review Group established jointly by the Finance and Constitution Committee and the Scottish Government

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Abbreviations

BPRG	Budget Process Review Group
BPS	Budget Policy Statement (New Zealand)
FIAG	Financial Issues Advisory Group
GIFT	Global Initiative for Fiscal Transparency
IBP	International Budget Partnership
IMF	International Monetary Fund
MSP	Member of the Scottish Parliament
OECD	Organisation for Economic Co-operation and Development
PEFA	Public Expenditure and Financial Accountability
VAT	Value-Added Tax

Executive summary

This research was commissioned by the Budget Process Review Group (BPRG) to help establish a set of principles to underpin a world class financial scrutiny process in Scotland. The report surveys existing global norms for budgetary governance and legislative budget scrutiny. It also examines lessons from the experience of legislatures in four countries that exercise different degrees of influence in budgetary decisions: Australia, New Zealand, Sweden and Germany.

Global standards recognise the legislature's role in budget approval, and call for in-year parliamentary oversight of budget execution, as well effective parliamentary audit procedures. Moreover, there is increased recognition that parliamentary involvement should be continuous, covering all stages of the budget process, including medium-term budgeting and priority setting. Yet, many detailed institutional choices cannot be settled with reference to global norms.

> **Recommendation 1**: The BPRG should **spell out a clear vision** for the future development of parliamentary financial scrutiny in Scotland. In particular, it should clarify whether it endorses the Financial Issues Advisory Group's (FIAG) call for a parliamentary process that entails "much more scrutiny" than at Westminster and the possibility to influence the budget.

The case studies highlight practices from legislatures that offer alternative scenarios for the development of financial scrutiny in Scotland. On balance, the Australian and New Zealand examples are closest to the default model of the Westminster Parliament, which FIAG explicitly rejected. The following recommendations are premised on FIAG's vision, and draw on the survey of norms and international experience to suggest improvements to the existing arrangements:

> **Recommendation 2**: The discussion of the draft budget should be preceded by a formal **medium-term budget policy statement** that is tabled annually and discussed in Parliament prior to the tabling of the annual budget proposal in the autumn. The medium-term budget policy statement should, within the context of the economic outlook, set out the government's fiscal policy objectives and its broad priorities for the budget. It should be tabled sufficiently far in advance, about six months prior to the start of the fiscal year, to allow meaningful parliamentary discussion that is informed by public consultation and engagement.

> **Recommendation 3**: The government should table a **single budget proposal in the autumn** that should be scrutinised by parliamentary committees and debated in the plenary, with the **possibility to table and adopt amendments**. This would replace the current draft budget stage with the tabling of a formal budget proposal during the autumn. Maximum amendment authority would allow any changes to government tax and spending proposals. At a minimum, it should be possible for MSPs to amend the budget by shifting funds from one item to another or by reducing an expenditure, and to amend tax

measures in a way that does not result in a lower budget balance than in the government proposal. Amendments should not be tied to a vote of confidence in the government.

Recommendation 4: A central role for the Finance Committee is essential for co-ordinating parliamentary decisions on the single budget proposal tabled in the autumn. Similar to the process in Sweden, **the Finance Committee should first consider the budget aggregates and allocations across the main spending areas**, and make recommendations that are debated and put to a vote in the Parliament.

Recommendation 5: Based on the framework established in the first parliamentary decision on the budget aggregates and allocations across the main spending areas, a second stage of parliamentary review should involve **detailed scrutiny of expenditure priorities within specific sectors by the relevant subject committees**. Any amendments proposed by the committees at this stage should be consistent with the framework established in the first parliamentary decision.

Recommendation 6: Given increased devolution of authority over taxation, the Scottish Parliament should consider the establishment of separate committees to scrutinise spending and taxation. A **separate committee on taxation** could help to ensure that appropriate attention can be given to the expenditure as well as the revenue side of the budget.

Recommendation 7: The BPRG should explore options for increasing the provision of equality relevant information. This should include **gender incidence analysis** that quantifies the impact of budget measures on men and women, alongside other distributive impacts based on age and household income.

Recommendation 8: The BPRG should adopt a **cautious approach to the incorporation of performance information** into budget documents. Only performance information that is directly linked to spending figures should be presented. Outputs can be attributed to a specific programme and fiscal year, which means that government bodies can be held to account for their delivery. In contrast, an excessive focus on outcomes is likely to weaken accountability, as many impacts cannot be clearly attributed. Programmes should be linked to outcomes, so that their effectiveness can be assessed against stated objectives. However, the large-scale introduction of outcome information into annual budget documents is not recommended.

Recommendation 9: Parliamentary **approval of spending should be at the programme level**. The budget documents should spell out the financial cost of each programme for at least the current year, the budget year, as well as the medium term, under the assumption that current policy is maintained. Ideally, the budget should also contain past expenditure information at the programme level. Parliament should be consulted to determine to what extent spending should also be presented on the basis of other classifications, in particular economic and functional. Virement rules should set limits for shifting funds between approved programmes to ensure parliamentary oversight and control of in-year adjustments.

Recommendation 10: The Auditor General for Scotland and the Scottish Parliament should consider **broadening the flow of relevant audit information** to parliamentary committees beyond the Public Audit Committee. This could involve the Auditor General giving evidence and advice to different committees including during the budget approval process to highlight relevant aspects of audits.

1 Introduction

This research was commissioned by the Budget Process Review Group (BPRG) to support its review of the Scottish Parliament's budget process.[1] The Review Group wishes to establish a set of principles to underpin a world class financial scrutiny process that are informed by (a) statements of best practice on budgetary governance and the role of legislatures in budget scrutiny issued by relevant international bodies; and (b) examples of international good practice from other jurisdictions. In this context, the report is also to consider whether the principles developed by the Financial Issues Advisory Group (FIAG) and which inform the current Scottish budget process may require revision to fully reflect the good practice identified.

Certain developments make it particularly relevant to revisit the role of the Scottish Parliament in the budget process at this time. Additional powers devolved under the 2016 Scotland Act include the ability to set income tax rates and bands. The Scottish Parliament will authorise and scrutinise the use of these powers. In addition, in his 2016 Autumn Statement, the Chancellor of the Exchequer announced plans to make tax changes only once a year in the autumn (HM Treasury 2016).[2] These changes raise the question of whether the Scottish budget process should be adjusted to take account of these developments, with potential implications for the role of the Scottish Parliament.

The fundamental premise of this report is that it cannot deliver an answer to the normative question of how influential a role the Scottish Parliament should have in the budget process. Ultimately, this is for the politicians and people of Scotland to decide. The aim of this report is to highlight how different practices can support the role of the legislature that is envisaged, and to sketch alternative scenarios. Put differently, what constitutes a "good" or even "best" practice, if the latter exists, can in most instances only be evaluated against a normative and context-specific decision about the extent to which legislative involvement in budgeting is desired. While there are some global norms and minimum standards, these leave substantial room to shape legislative involvement in a way that is deemed appropriate in a particular context. This means that the BPRG should define clear objectives for the future role of the Scottish Parliament in the budget process.

With the above caveat in mind, this report aims to support the discussion of alternative scenarios for the future development of the budgetary role of the Scottish Parliament. In mapping out its vision of the Scottish budget process, FIAG outlined a budget process that involves the Scottish Parliament at an early stage to debate strategic priorities (stage 1), prior to the introduction of a draft budget (stage 2) that gives Members of the Scottish Parliament (MSPs) an opportunity to debate

[1] In this report, the generic terms "legislature" and "parliament" are used interchangeably.

[2] During the 1990s, the UK experimented with a unified budget process where the government announced its tax and spending plans at the same time (Dorrel 1993).

alternatives and propose changes, followed by formal approval based on a suitably updated budget and prior to the start of the financial year (stage 3). FIAG also envisaged broad committee involvement drawing on the Finance Committee, subject committees and the Audit Committee, as well as parliamentary oversight of budget execution. The aim of its proposals was to promote "much more scrutiny by Parliament of the Executive's spending proposals than is presently the practice under the Westminster system" (Consultative Steering Group 1998: Annex I, para. 1.7). Whether this remains a desirable objective for Scotland has to be clarified.

The case studies in this report illustrate a possible continuum of parliamentary involvement. On the one hand, the Australian Parliament plays a largely ceremonial role in the budget process, especially the House of Representatives. The New Zealand Parliament has seen some changes in recent decades that make the process more conducive to parliamentary participation, including the introduction of a pre-budget debate, and revised powers of amendment. In practice, however, the process remains dominated by the government. Sweden illustrates a perhaps more co-operative approach. The Swedish Parliament debates the overall direction of budget policy early in the year, and approves broad guidelines in a Spring Fiscal Policy Bill ahead of the introduction of the annual budget. While the Swedish Parliament amends the budget less frequently than in previous decades, it retains the power to do so. The German Parliament illustrates the more active end of the spectrum. The Bundestag makes hundreds of amendments to the executive budget proposal each year, which often serve to reduce expenditures. The four reference countries chosen for this report illustrate alternative but possible trajectories for the budgetary role of the Scottish Parliament.[3]

In line with the Terms of Reference, this report has two substantive parts. The first surveys international norms on budget transparency, highlighting those elements that are relevant for assessing legislative financial scrutiny. It also gives a brief overview of relevant aspects of the academic literature on the role of legislatures in public finance. The second part consists of a series of case studies that highlight practices related to legislative financial scrutiny from four different countries. A detailed evaluation and overview of legislative budgeting across four countries is impossible within the short space available for this report, nor is it necessary. The focus is on specific elements highlighted in the Terms of Reference issued by the BPRG for this research report. The conclusion summarises the key findings, relates these to the FIAG principles, and develops specific recommendations.

[3] The experience of more active budget-writing legislatures, such as the US Congress, is deliberately excluded from this report. An approach where the legislature writes the budget is far from existing practice in Scotland and from the principles espoused by FIAG.

2 Global norms and related literature

Legislative scrutiny of the budget and its implementation is generally regarded as an integral part of a transparent budget system. The Organisation for Economic Co-operation and Development (OECD) provides perhaps the most compact definition of budget transparency as “the full disclosure of all relevant fiscal information in a timely and systematic manner” (OECD 2002: 7). Giving a bit more detail, the International Monetary Fund (IMF) defines it as “the comprehensiveness, clarity, reliability, timeliness, and relevance of public reporting on the past, present, and future state of public finances.”[4]

Several organisations have developed norms and standards in this area that are relevant for this report. While there are differences in emphasis, there is wide agreement about the desirability of budget (or fiscal) transparency and most of its core elements (Petrie 2003, Wehner and de Renzio 2013: 97-99). There is also agreement on some minimum standards for the role of legislatures in the budget process, but this aspect is less developed – thus far. The OECD is currently engaged in work to define best practices for legislative budgeting, which should help to further entrench norms in this area. The standards highlighted here apply to both national as well as the subnational legislatures.

This part of the report starts with an overview of international transparency standards. It then discusses specific elements of these standards that relate to parliamentary scrutiny. The final section of this part draws out relevant key findings from the academic literature on legislative budget scrutiny.

2.1 International transparency standards

The OECD Best Practices for Budget Transparency recommend the following seven types of budget reports: (i) a comprehensive budget that includes performance data and medium term projections; (ii) a pre-budget report that states long-term economic and fiscal policy objectives, and economic assumptions and fiscal policy intentions for the medium term; (iii) monthly reports that show progress in implementation and explain differences between actual and forecast amounts; (iv) a mid-year report that provides a comprehensive update on implementation, including an updated forecast of the budget outcome for the medium term; (v) a year-end report audited by the supreme audit institution and released within six months of

[4] The IMF definition is from its transparency portal: http://www.imf.org/external/np/fad/trans/. Another widely cited definition was put forward by Kopits and Craig (1998: 1): “Fiscal Transparency is… openness toward the public at large about government structure and functions, fiscal policy intentions, public sector accounts, and projections. It involves ready access to reliable, comprehensive, timely, understandable, and internationally comparable information on government activities – whether undertaken inside or outside the government sector – so that the electorate and financial markets can accurately assess the government’s financial position and the true costs and benefits of government activities, including their present and future economic and social implications.”

the end of the fiscal year; (vi) a pre-election report that illuminates the general state of government finances immediately before an election; and (vii) a long-term report that assesses the long-term sustainability of current government policies. In addition, the OECD recommends several specific disclosures related to economic assumptions, tax expenditures, and various types of assets and liabilities. A final section addresses integrity, control and accountability practices, some of which will be discussed further below.

The OECD Best Practices have not been directly revised or updated since their publication. Moreover, unlike the IMF and some other organisations discussed below, the OECD does not directly use the Best Practices to score and compare transparency practices across countries. In 2015, the Council of the OECD developed its work in this area when it approved a "Recommendation on Budgetary Governance." Amongst others, it advocates for budget documents and data to be "open, transparent and accessible" and for budget debates to be "inclusive, participative and realistic" (OECD 2015a: sections II.4. and II.5.).

The Open Budget Survey conducted by the International Budget Partnership (IBP), a civil society group, assesses budget information and other aspects of the budget process. It measures transparency across a set of budget documents that is very similar to those listed in the OECD Best Practices. One additional document that the IBP promotes is a "citizen budget" designed to communicate key public finance information to the wider public (IBP 2015). The 2017 version of the Open Budget Survey will also include redesigned indicators on public participation and oversight practices, including the role of the legislature and the supreme audit institution. The Open Budget Index and other indicators derived from the survey are specifically designed to assess practices across countries and over time, with updates that are published every two years.[5]

The IMF first published a Code of Good Practices on Fiscal Transparency in 1998, which it updated in 2001 and 2007. A decade after its launch, interest had waned and a decreasing number of countries requested assessments against the Code. Fiscal transparency regained prominence in the wake of the 2007-8 financial crisis, when the IMF identified it as a central plank in its response (IMF 2012). In 2014, the IMF relaunched a substantially revised Fiscal Transparency Code. This revision put greater emphasis, amongst others, on forecasting and fiscal risk analysis. The new Code contains a set of principles built around four pillars: (i) fiscal reporting; (ii) fiscal forecasting and budgeting; (iii) fiscal risk analysis and management; and (iv) resource revenue management (the latter is still under public consultation at the time of writing). For each principle, the Code sets out standards that can be used to assess practices as basic, good or advanced.

In addition, several other organisations have developed relevant principles or standards. The multi-stakeholder Global Initiative for Fiscal Transparency (GIFT) has published High-Level Principles on Fiscal Transparency that the United Nations

[5] The Open Budget Survey website includes a useful data explorer tool and other resources: http://www.openbudgetsurvey.org.

General Assembly endorsed in December 2012. Also, the donor-led Public Expenditure and Financial Accountability (PEFA) initiative has developed a methodology for assessing public financial management across seven broad pillars, with elements that are relevant for this report. The PEFA framework has been applied extensively across different levels of government, to assess national as well as regional and municipal governments.

2.2 Standards for legislative financial scrutiny

Providing a broad starting point, one of the GIFT Principles relates directly to the role of the legislature in the budget process. Principle 8 demands that "The authority to raise taxes and incur expenditure on behalf of the public should be vested in the legislature. No government revenue should be raised or expenditure incurred or committed without the approval of the legislature through the budget or other legislation. The legislature should be provided with the authority, resources, and information required to effectively hold the executive to account for the use of public resources." In addition, the GIFT Principles call for roles and responsibilities to be clearly assigned to different actors in the budget process, including the legislature (principle 7).

The OECD Best Practices make three references to the role of parliament. The most specific of these relates to the timing of budget approval (para. 1.1): "The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year." This establishes clear *minimum* standards for the timing of the parliamentary process. The Best Practices also demand that parliament must scrutinise audit reports (para. 3.3) and, more generally, that it must have "the opportunity and the resources to effectively examine any fiscal report that it deems necessary" (para. 3.4).

The OECD's Recommendation on Budgetary Governance promotes the idea that parliamentary engagement in budgeting should be continuous. It recognises the "fundamental role" of parliament in budget approval and accountability, but adds: "The parliament and its committees should have the opportunity to engage with the budget process at all key stages of the budget cycle." Notably, the text suggests a role in medium-term budgeting and priority setting (OECD 2015a: section II.5). Future work of the OECD on best practices for legislative budgeting may also suggest minimum standards for amendment authority. About half of all OECD countries have legislatures with unfettered authority to amend the budget, whereas the amendment limits of the UK House of Commons are among the most restrictive (Downes and Nicol 2016; see also Wehner 2006).

The IMF's 2014 Fiscal Transparency Code makes two main references to the role of the legislature. It contains the principle that "The legislature and the public are consistently given adequate time to scrutinize and approve the annual budget" (principle 2.2.2.). In line with the benchmark established in the OECD Best Practices, a score of "advanced" against this principle requires the budget to be "submitted to the legislature and made available to the public at least three months before the start of the financial year" and "approved and published at least one month before the start of the financial year." In its evaluation of the UK budget process, the IMF concluded that the late submission and approval of the budget fall outside the internationally accepted range of reasonable practices, so that basic requirements are "not met" (IMF 2016: 42).

A second IMF principle (2.4.2.) demands legislative oversight of budget execution: "Any material changes to the approved budget are authorized by the legislature." Here, a practice is considered "advanced" where "[a] supplementary budget is required prior to material changes to total budgeted expenditure or substantially altering its composition." In this regard, the IMF concluded that the UK budget process allowed strong parliamentary oversight and met the "advanced" standard (IMF 2016: 47).[6]

In addition, the IMF Code mentions the legislature on two further occasions. Regarding budget documents, the Code reiterates the well-known principle of budget unity (2.1.1.): "Revenues, expenditures, and financing of all central government entities are presented on a gross basis in budget documentation and authorized by the legislature." A major shortcoming of the UK central government budget process is that "the bulk of revenues and expenditures provided are on a net basis" (IMF 2016: 34). The IMF rated UK practices on this measure as "basic" and identified this as a reform priority, citing calculations that own source revenues worth 8 percent of expenditure are unreported.

In terms of the legal framework, the IMF demands that it "clearly defines the time table for budget preparation and approval, key contents of the budget documentation, and the powers and responsibilities of the executive and legislature in the budget process" (principle 2.2.1). Against this principle, the IMF attested that UK standards are "basic" with significant gaps due to the lack of legislation regulating the budget process, including the role and powers of the House of Commons (IMF 2016: 41).

Finally, the PEFA Framework contains three indicators that relate to the role of the legislature (PEFA 2016). Notably, Pillar IV (policy-based fiscal strategy and budgeting) includes an indicator (17) that looks at the budget preparation process, with one dimension (3) that is related to the budget submission to the legislature. Here, the highest possible score is achieved when the budget was submitted to the legislature at least two months before the start of the fiscal year in each of the last three years. This standard is lower than in the OECD Best Practices and less demanding than for the top category in the IMF Code. This may reflect the fact that the PEFA framework is widely, although not exclusively, used to assess public financial management in developing countries, where budget processes tend to be more compact than in industrialised economies.

[6] However, the highly aggregated level at which the House of Commons appropriates money means that Parliament has far less control than other legislatures that approve spending at the programme level or based on more disaggregated categories (Wehner 2015). The next part includes examples.

Pillar VII (external scrutiny and audit) includes an indicator on external audit (30), with one dimension (2) the submission of audit reports to the legislature. This aspect is rated strongest where financial audits are transmitted three months after the accounts were sent to the audit institution. Another indicator (31) covers legislative scrutiny of audit reports, with separate dimensions on timing, hearings, recommendations and transparency. Here, the PEFA framework rates practices highly where legislatures debate audit reports within three months of receipt; hold hearings with all entities that receive a qualified or adverse opinion or a disclaimer; issue recommendations on a systematic basis and track these; and conduct hearings in public, debate committee reports in the full chamber and make them available to the public.

2.3 Related literature

Recent reviews of the academic literature on fiscal transparency (de Renzio and Wehner 2016) and the role of legislatures in public finance (Wehner 2014) are available elsewhere. This section is limited to some broader points and specific findings that are most relevant in the context of this report.

The empirical literature comparing the role of legislatures in budgeting finds wide variation across modern democracies (Lienert 2005, Wehner 2006, Stapenhurst et al. 2008). Some specific differences are discussed in more detail in the next part of this report. While the global norms surveyed in the preceding section suggest that there is some agreement on selected minimum standards, there is no agreement on how extensive a role the legislature *should* play in budgetary decisions. In some countries, it is unthinkable that the executive budget proposal will ever be accepted unchanged by the legislature, whilst in others the reverse applies. Moreover, within the same country, legislative budgeting evolves over time and adapts to changing conditions (Schick 2002).

Wehner (2006, 2010) reviews several institutional preconditions for legislative control of public finance, focusing on two dimensions. One is the formal authority of a legislature in budgetary matters. This includes a legislature’s powers to amend the executive budget proposal, the reversionary budget that is implemented should approval be delayed beyond the start of the fiscal year, as well as the degree of executive flexibility to alter the approved budget during implementation without having to seek legislative approval. A second set of variables captures the organisational capacity of a legislature. This relates to the amount of time available for parliamentary budget discussions prior to the start of the fiscal year, the degree to which parliamentary scrutiny involves specialized legislative committees, as well as parliament’s access to independent budget research capacity in the form of a parliamentary budget office.

A major concern highlighted by the literature on budget institutions is that there might be a trade-off between legislative influence and fiscal prudence. Several studies caution that strong legislative involvement in budgeting may lead to poor fiscal outcomes including increased deficits and debt (Alesina et al. 1999, Hallerberg and Marier 2004, Hallerberg et al. 2009). However, carefully designed procedures may mitigate these tendencies (Wehner 2010: 141):

> To some, the fiscal cost of parliamentary activism may simply be an acceptable side effect of democracy. Others, surely, will disagree. Yet it may not be impossible for legislatures to be both powerful as well as fiscally responsible. This requires carefully engineered institutions that force legislators to fix prudent aggregate parameters and to focus debate on allocative choices within a hard budget constraint. Seemingly minor procedural details play a major role in any attempt to achieve this goal.

Some argue that a legislature may not have to amend the budget to impact on policy. The executive may anticipate legislative reactions and fashion the draft budget accordingly, thereby reducing the likelihood of amendments. However, it is unlikely that a prolonged absence of amendments indicates that the legislature is getting its way. An executive has no reason to be responsive to legislative preferences unless the absence of such consideration has consequences. A modicum of amendment activity may be required to signal to the executive that legislative actors have the capacity, in practice, for substantial revision should the draft budget not take sufficient account of their preferences (Wehner 2010: 57). Moreover, a lack of meaningful opportunities to influence priorities also reduce the incentives of legislators to invest their time and effort to scrutinise the budget. The case studies in the following part document practices that have allowed some relatively influential parliaments to reconcile legislative participation with prudent budgeting.[7]

[7] In addition, fiscal rules can be devised to promote prudent budgets (Cangiano et al. 2013, Schaechter et al. 2012). These impose constraints on an indicator of overall fiscal performance, and bind both the executive as well as the legislature. Fiscal rules are beyond the scope of this report. For a useful overview of design choices, see Anderson and Minarik (2006).

3 Case studies

No scrutiny process is directly comparable to that of the Scottish Parliament, with transferable packages of “good” or “best” practices. For this report, it is impossible and unnecessary to attempt to describe in detail the legislative process across different countries. Instead, this report takes a more targeted look at relevant practices in four countries that illustrate a continuum of parliamentary influence. Of the legislatures considered, the German Parliament is by far the most active in budgetary matters. The Swedish Parliament, too, has had an active and influential role in the past, but less so nowadays. The experiences of parliaments in Australia and New Zealand is perhaps more familiar, due to the common heritage of the Westminster system. Nonetheless, there are areas where these countries have reshaped parliamentary practices and developed sometimes unique approaches that are worth highlighting in the context of this report.

As specified in the Terms of Reference, the focus of this section of the report is on scrutiny practice that: (a) takes a “full year approach” to budget considerations; (b) is informed by adequate information presented in a transparent, accessible and relevant manner; (c) is informed by the long-term implications of policy and budget decisions on affordability and financial sustainability;[8] (d) considers and influences draft budget tax and spending plans prior to consideration of the Budget/Finance Bill; (e) has subject / departmental committee consideration of departmental spending plans; (f) has a clear focus on the role of public bodies and lines of accountability; (g) considers the performance of public bodies and impact on outcomes including how spending decisions are prioritised; (h) considers wider performance, outputs and outcomes and how they influence spending and tax decisions; (i) considers how outcomes are linked to the budget documentation; (j) considers in year changes to budget plans; (k) considers outturn against budgets and consolidated accounts; (l) considers good practice in scrutiny of equalities issues; (m) considers audit findings systematically in budget scrutiny work.

Based on the above requirements, this part of the report identifies practices elsewhere that are useful for thinking about the scrutiny process in the Scottish Parliament. However, it is important to point out that other institutions will be important to fully address some questions that arise in the Scottish context. In particular, intergovernmental co-operation in fiscal matters can be achieved through a variety of mechanisms with different degrees of legislative involvement (Shah 2007, Ter-Minassian 1997). In Germany, regional governments are represented in the law-making process at the national level via the Bundesrat, and thus play an important role in tax decisions that affect the regions. In Australia, the independent Commonwealth Grants Commission advises on revenue sharing between the federal

[8] The assessment of fiscal sustainability is increasingly carried out by independent fiscal institutions, such as fiscal councils or parliamentary budget offices (von Trapp et al. 2016). For example, at the UK central government level, the Office for Budget Responsibility publishes a Fiscal Sustainability Report with long-term fiscal projections and an assessment of the trajectory for public sector debt. This may be one option for the future development of the mandate of the Scottish Fiscal Commission.

government and the states. Other federations, like Canada, have well-developed systems for intergovernmental negotiations that involve federal and provincial executives. The UK currently lacks an equivalent machinery. One implication for this report is that there are limits in drawing on international experience with "scrutiny processes within legislatures where similar interactions between tiers of government operate", as the Terms of Reference phrased it.

The following sections proceed by country, starting with a summary of salient features of the approach to legislative budget scrutiny. This is followed, in each case, by a discussion of specific elements highlighted as central in the Terms of Reference for this report. In some areas, this highlights lack of consensus about what might be "best" practice, and brings to the fore notable differences. Some of the discussion refers to relevant subnational experiences. However, the experiences of national legislatures are no less relevant. In Sweden and New Zealand, their unitary structure means that there are no obvious subnational counterparts, but these countries are particularly interesting because of the changes in budget practices they pioneered in recent decades. Moreover, they have recent experience with minority and coalition government. With regard to Australia and Germany, the report notes similarities and differences between national and subnational practices.

3.1 Germany

The German Parliament has "an unusually strong and influential engagement in the annual budget process" (OECD 2015b: 73). It receives the budget proposal about five months prior to the start of the financial year, and has unlimited authority to amend it. The scrutiny of the federal budget mainly takes place in the lower house, the Bundestag. The regional chamber, the Bundesrat, has a more important role in changes to the most important taxes, which are shared between levels of government (income tax, corporation tax, and VAT). The Bundestag makes regular use of its budgetary powers and typically adopts several hundred amendments – about one thousand on average in recent years – to the executive budget proposal each year, even when the government commands a large parliamentary majority. These powers are used responsibly. Amendments typically reduce, rather than augment, total spending (Wehner 2001). It is important to note that the Bundestag is unusually large, with currently 631 seats. This means that scrutiny tasks can be distributed across a large membership and parliamentary committees are large and can be highly specialised. Several elements of the parliamentary budget process at the national level are instructive in the context of this report, as are some aspects of the experience of the parliaments in Germany's regions, the Länder.

Powerful Budget Committee. The Budget Committee is at the centre of financial scrutiny in the Bundestag. While sectoral committees can provide feedback, and make suggestions to the Budget Committee, the latter has decision-making authority and is responsible for transmitting recommendations to the plenary. The Budget Committee is composed of more than 40 members, based on the proportional representation of all parties in the Bundestag. The Budget Committee does not recommend tax changes, and all tax legislation is dealt with separately in the Finance

Committee of the Bundestag. In the parliaments of the Länder, there is typically a single budget and finance committee that considers both spending and tax questions. Tax questions are less prominent at this level, since the major taxes are shared between the Länder and the federal government, and are governed by federal legislation. For example, the Parliament of Lower Saxony maintains a Committee for Budgets, Finance and Public Accounts.

Role of audit findings in budget scrutiny. In the Bundestag, the Committee on Public Accounts is a subcommittee of the Budget Committee, consisting of 15 of its members. A member of the largest opposition party traditionally chairs the Budget Committee, while a member of the governing coalition chairs the Public Accounts Committee. The integration of approval and audit functions in a single committee helps to ensure that audits can feed directly into budgetary decisions. This committee model is also found in several parliaments of the Länder. For example, in Saxony-Anhalt, the Public Accounts Committee is a subcommittee of the Finance Committee.[9]

Specialised rapporteur system. The Budget Committee has a decentralised approach to scrutiny. Rapporteurs are responsible for the budget of a specific ministry, supported by assistant rapporteurs from each political party represented in the Bundestag. Rapporteurs tend to keep their positions for several years and develop a high degree of portfolio-specific expertise. The Public Accounts Committee also operates a rapporteur system, but without assistant rapporteurs. A rapporteur of the Public Accounts Committee will never be rapporteur for the same ministry in the Budget Committee.

Full-year approach. During budget formulation, Budget Committee rapporteurs are kept informed by the relevant officials in line departments and sectoral officials in the budget division of the finance ministry. During the first half of the year, it is not unusual for rapporteurs to conduct site visits, for instance to investigate the necessity of certain demands for capital expenditure, or to check on the standard of administration. Since 2011, the cabinet decides binding ceilings for each line ministry for the upcoming budget in March, and the finance minister reports this decision to the Budget Committee. During budget execution, the Budget Committee receives monthly expenditure updates and quarterly reports on debt management, and it has to approve in-year adjustments above the limits it grants in the annual budget act. The Federal Court of Audit assists the Bundestag also during the budget execution stage, and answers several hundred parliamentary questions each year.

Unique powers over in-year changes. When approving the budget, the Bundestag has the power to insert a "qualified freeze" to require the finance ministry to obtain parliamentary consent before disbursing funds for a specific item, or a certain percentage thereof. The executive is critical of this mechanism, as it can interfere

[9] In some countries influenced by Napoleonic traditions, parliaments use a formal discharge procedure to approve the implementation of the budget for a specific year. In many cases, this approval is routinely granted, but this may not always be the case. For example, the European Parliament's refusal to grant a discharge in 1998 ultimately led to the resignation of the Santer Commission in March 1999.

with budget implementation. On the other hand, it is a powerful parliamentary mechanism to ensure the executive provides sufficient information to Parliament and properly justifies its spending proposals.

Documentation with detailed input information. Parliament exercises control through the detailed scrutiny of about 6000 line items. In 2009, the finance ministry proposed to restructure the budget into programmes and to reduce the number of line items to about 1000. The Budget Committee halted the implementation of this reform, fearing a “loss of… control” (Jones and Lüder 2010: 269). Hence, the Bundestag continues to approve a highly detailed budget. The annual budget law controls how much flexibility the executive has to vire between items and there are mechanisms for carry-overs (OECD 2015b: 27).

3.2 Sweden

The Swedish Riksdag is a unicameral parliament. The Riksdag fundamentally restructured its budget process in the mid-1990s, as part of a wider set of reforms adopted in support of fiscal consolidation (Blöndal 2001). Amongst the major changes to the budget process most relevant in the context of this report are the move to a two-stage process of parliamentary engagement with budget formulation. In addition, the reforms also redesigned the process by which parliamentary committees scrutinise the budget. For many decades, the Swedish Parliament adopted several dozen amendments to the government budget proposal every year, often resulting in additional expenditures. Parliament now votes on the budget as a package, which makes it difficult for opposition parties to promote amendments, even in a minority government setting. In general, since the reforms were adopted Parliament has amended the budget less frequently, and rarely in a way that affects total outlays (Wehner 2007, 2013). This was not the case in 2014, when an opposition budget was temporarily enacted until a revised government budget gained parliamentary support (Mattson 2014, OECD 2017a).

Early parliamentary involvement. In the mid-1990s, the Swedish Parliament adopted a top-down voting process in which it votes first on budget totals before deciding individual appropriations. The reforms introduced a Spring Fiscal Policy Bill, in which the government proposed aggregate expenditure ceilings for the upcoming budget plus two further years, as well as indicative ceilings or “frames” for the allocations across 27 expenditure areas. This bill was tabled for the first time in April 1996, preceding the presentation of the draft budget by five months. Following parliamentary approval of the bill in June the executive would proceed to finalise a draft budget to be presented to Parliament in September, more than three months before the beginning of the new fiscal year. In 2001, it was decided that this process was too cumbersome. The Spring Fiscal Policy Bill now contains general guidelines for budget policy, rather than fixed ceilings and indicative frames, which are decided in the autumn.

Subject committee involvement. In conjunction with the two-step decision-making procedure, the reforms adopted in the mid-1990s gave the Finance Committee responsibility for discussing aggregate spending as well as the frames for each of the 27 expenditure areas. Based on the work of the Finance Committee, the first parliamentary decision in the autumn is now on the expenditure frames for the upcoming budget, following which sectoral committees look at between one and four expenditure areas and propose allocations within the approved ceilings. Sectoral committees may propose shifting funds between items within an expenditure area, but not in a way that breaches the total set for that area.

Performance of agencies. The Swedish government uses a decentralised structure with about 350 agencies to implement policy. Since the reforms of the mid-1990s, agencies enjoy a considerable degree of autonomy and receive lump sum appropriations for their operations. In return, there have been efforts to strengthen accountability for results (Blöndal 2001: 49-54). The Budget Bill now contains about two or three performance objectives for each of the 27 expenditure areas that are approved with the spending plans, and performance is assessed with a mix of output and outcome measures. This follows a more strictly outcome-focused approach discontinued in 2009, which was found to be a poor steering instrument when impacts are beyond the direct control of an agency. Yet, the OECD (2017a) concludes that "performance information lacks influence in parliament's budgetary dialogue" due to "weak practical linkages between the performance information provided in the annual reports of agencies and the proposed appropriations for the upcoming budget year." Work is currently underway to strengthen these relationships. It remains to be seen whether this information will become more central to budget scrutiny, given that parliamentarians already receive large volumes of information, and the inherent difficulties in documenting clear links between funding and impacts.

Commitment to scrutiny of equality issues. Particularly noteworthy are Sweden's efforts over several decades to mainstream gender so that it is an integral part of policy formulation. The current government has announced a major new initiative to advance gender budgeting, which is currently in the process of being developed (Quinn 2016). One of the principles is to work towards the presentation with the government's budget proposal of information on the impacts of budget measures on men and women. Another is to make more rigorous gender impact assessment an integral part of the budget discussions between the finance ministry and line ministries at an early stage during budget formulation (OECD 2017a). It is too early to evaluate these developments.[10]

3.3 New Zealand

New Zealand's unicameral Parliament plays a minor role in the budget approval process. It receives the budget about one month prior to the start of the financial year, and typically approves it only two months into the financial year. Members of

[10] In Austria, gender budgeting was introduced as part of an ambitious performance budgeting reform in 2013. For each of the 32 budget chapters, ministries define a maximum of five impact objectives (and related performance indicators) and one of these has to be related to gender equality. For an overview of other OECD countries, see OECD (2017b).

the House of Representatives can initiate changes, but the government has a "financial veto" over proposals it considers having "more than a minor impact" on the fiscal aggregates or the composition of a vote (New Zealand Treasury 2011: 83-84). The financial veto is used in practice, but not often.[11] New Zealand provides a rare example of managing public money based on a strict link between performance and the allocation of funding, where an increment in resources is directly linked to an increment in outputs (Schick 2003). The estimates presented to the New Zealand Parliament link the expenditure of a department, or vote, to specific outputs, and spending is approved on this basis.[12]

Early parliamentary involvement. The Budget Policy Statement (BPS) sets out the overarching policy goals and priorities for the forthcoming budget. The Minister of Finance must present a BPS to the House of Representatives by 31 March each year. In recent years, the BPS has been tabled in December, preceding the presentation of the budget in late May, ahead of the start of the financial year in July. The Finance and Expenditure Committee calls for public submissions, considers the BPS and reports its findings within 40 working days of receiving the BPS. In 2016, the committee received 33 submissions and held hearings on two days, including with the Minister of Finance and a selection of nine submitters. The committee's report forms the basis for a pre-budget discussion in the plenary, which is introduced by the chairperson of the Finance and Expenditure Committee.

Output-based appropriations. The New Zealand Parliament is asked to approve spending on specific outputs (New Zealand Treasury 2013).[13] The underpinning performance information in the estimates documents the "budgeted standard" in terms of outputs. These are grouped by sector, with an overview of the broad strategic priorities and referencing outcome targets published by the government. For example, the 2016-17 estimates for the New Zealand Police fall under the justice sector. One of the appropriations in the police vote is for the road safety programme. The estimates list a series of outputs of this programme to which budgeted standards are attached.[14]

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[11] In June 2016, the Finance Minister issued a financial veto to block a bill extending the duration of paid parental leave, citing an overall net increase in spending of $278 million over a four-year period.

[12] New Zealand's budget documents are available at http://www.treasury.govt.nz/budget.

[13] These distinguish different types of appropriations: outputs (goods or services to be supplied), benefits or related expenses (for direct resource transfers to individuals), borrowing expenses (such as interest payments), others not falling into the preceding categories, and capital expenditure. There is also a separate single-line appropriation type for intelligence and security services of a sensitive nature. In addition, a reform in 2013 introduced a new type of multi-category appropriations that cross-cut two or more of the categories, which allows for greater flexibility. The appropriations also distinguish funding for goods or services provided by the government directly (departmental) from those supplied on behalf of the government (non-departmental). Appropriations can cover different time periods: annual, multi-year (but not exceeding five years), or permanent (authorised by legislation other than an appropriation act).

[14] Examples of the latter are the number of various officer issued enforcement actions undertaken (e.g. 590 to 635 for speed, per 10,000 population), the number of breath tests conducted (2-2.4 million), road safety sessions delivered in schools (50,000), etc. This is complemented with quality-related measures related to timeliness, such as for the median response time to emergency traffic

Subject committee scrutiny. Estimates are referred to the Finance and Expenditure Committee and may be referred to other select committees. Select committees have two months from the day the budget was presented to Parliament to report on their examination of the estimates. The system for audit scrutiny is similarly decentralised. In 1962, the Public Accounts Committee was discontinued and its functions given to the Public Expenditure Committee, and in 1985 to the Finance and Expenditure Committee. The latter receives audit reports and may receive a briefing on specific reports from the Auditor General. Other subject committees can receive briefings from the Auditor General on any reports within the subject area of that committee, but it is rare that they report to the House. During the review of the estimates, the Auditor General supports select committees with evidence and advice. This provides an opportunity for the Auditor General to highlight pertinent insights from audits to inform parliamentary scrutiny of spending proposals.

3.4 Australia

The Australian Parliament has a marginal role in the budget approval process. Its formal powers to amend the budget are limited. In the Westminster tradition, it can only reject or approve an expenditure, or reduce it. Moreover, party discipline in the lower house is very strong. Until 1993, budgets were only introduced after the start of the financial year and approved about five months into it. A new timetable since then is based on introduction in May and approval in June, with the fiscal year starting in July. The establishment of a Parliamentary Budget Office in 2012 has given members access to a new source of independent budget analysis, including costings of policy proposals. The House of Representatives subjects the budget to hardly any scrutiny. It is in the directly elected Senate, the upper house, that more detailed scrutiny of the estimates takes place. This involves sectoral legislation committees, which conduct hearings with evidence from executive officials. The Australian experience is particularly relevant for highlighting the potentially detrimental impact on parliamentary scrutiny of a perhaps overly outcome-focused budget system.

Outcome-based appropriations. At the federal level, the Australian budget system was amongst the first to move towards a strong outcomes-orientation in the late 1990s (Kristensen et al. 2002). This involved appropriations against high-level outcomes instead of programmes or departments. For example, the Department of Defence had a single line for all its operations: “To defend Australia and Australia’s interests” (Blöndal et al. 2008: 155). Appropriations covered the full costs of outputs calculated on an accrual basis and were non-lapsing rather than annual (Kelly and Wanna 2004: 98). This allowed the government to fund new activities with reference to an outcome, even if they were not mentioned in the supporting budget documentation, a High Court judgment confirmed (Blöndal et al. 2008: 166). The Australian Parliament continues to appropriate by outcome, although a single organisation can have more than one outcome. While information on outputs is

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events (8 to 9 minutes in urban areas, 12 to 14 in rural ones). For each budgeted standard, the estimates also provide the budgeted and “estimated actual” figures for the preceding financial year.

presented in the Portfolio Budget Statements that are also tabled in Parliament, these are for information only (see below).[15] In 2008, a review of the Australian budget system conducted by the OECD concluded that outcome-based budgeting "had the result of further limiting Parliament's role" (ibid.: 171).[16]

Programme-level estimates linked to outcomes. The Portfolio Budget Statements contain programme-level funding information and state which programmes are associated with each outcome. Programme-level spending estimates are for the current budget year ("estimated actual"), the upcoming budget year and a further three years ("forward estimates"). For example, the Department of Education and Training Portfolio Budget Statements for 2016-17 list nine programmes as contributing to the achievement of its outcome 1 ("Improved early learning, schooling, student educational outcomes and transitions to and from school through access to quality child care, support, parent engagement, quality teaching and learning environments"), as well as three "linked" programmes run by other entities. Performance information is presented for each programme, including performance criteria and targets.

Approach to performance at the state level. The budget approval process followed in the Australian states is more output-focused. For example, the appropriations authorised by the Parliament of Victoria are for the provision of outputs instead of outcomes. However, while outputs are specified in the budget documentation that is provided to the legislature, the appropriations bundle funding for different baskets of outputs at the departmental level (e.g. education and training, health and human services, etc.). In other words, the appropriations do not facilitate parliamentary control of the allocation of expenditure across different programmes and outputs within departments.

[15] Australian budget documents are available at http://www.budget.gov.au/past_budgets.htm.

[16] On the experiences of other countries, see the comparative analysis of performance budgeting reforms by Moynihan and Beazley (2016). They note that the "impact [of performance budgeting] on how annual budgets allocate resources has been minimal" (p. 2).

4 Summary and recommendations

Global standards for budget transparency display a significant degree of overlap and consensus about the essential ingredients of a transparent budget system, and the types of reports that should be produced. There is somewhat less detail on the role of the legislature in the budget process, because of different national traditions, although there is agreement on some aspects. The OECD and IMF both agree that the budget should be tabled at least three months prior to the start of the fiscal year, and the OECD considers this an absolute minimum. International transparency standards also acknowledge the importance of in-year parliamentary oversight of the execution of the approved budget, as well as timely and effective parliamentary audit procedures. Moreover, there is increased recognition that parliamentary involvement should be continuous, covering all stages of the budget process, including medium-term budgeting and priority setting. Yet, many detailed institutional choices cannot be settled with reference to global norms.

> **Recommendation 1**: The BPRG should **spell out a clear vision** for the future development of parliamentary financial scrutiny in Scotland. In particular, it should clarify whether it endorses FIAG's call for a parliamentary process that entails "much more scrutiny" than at Westminster and the possibility to influence the budget.

The case studies highlighted a selection of practices from legislatures that offer alternative scenarios for the development of the role of the Scottish Parliament in financial scrutiny. The Australian and New Zealand examples are closest to the default model of the Westminster Parliament, where parliamentary participation is limited. FIAG explicitly rejected this approach (Consultative Steering Group 1998: Annex I, para. 1.7). If the BPRG reaffirms this vision, this would point towards a trajectory where financial scrutiny evolves towards a level of engagement that is closer to that in the Swedish or German parliaments. The following paragraphs identify practices relating to specific aspects highlighted in the Terms of Reference that would be compatible with this latter approach.

A full-year approach treats financial scrutiny as a continuous process rather than an event. Active financial scrutiny involves parliaments early in the formulation stage, allows sufficient room to make amendments to the budget during the approval stage, and enables oversight of implementation both in-year as well as ex post. A number of parliaments, including several of those covered in the case study section of the report, have adopted practices that support continuous scrutiny.

An important trend in budgeting is that more parliaments get to debate the broad direction of fiscal policy and budgetary priorities ahead of the tabling of the annual budget. The BPS in New Zealand is one example of this. Sweden has gone further and formalised this approach in a two-step legislative process, where the Spring Fiscal Policy Bill is debated and approved several months ahead of the tabling of the budget. These pre-budget debates provide an opportunity to think beyond the annual budget and about the medium-term path of fiscal policy, major objectives, as well as long-run sustainability. They can also help to build consensus about difficult trade-offs and commitment to major budget parameters, including through public consultation and engagement. The budget process envisaged by FIAG clearly envisaged parliamentary discussion “on strategic priorities for the following financial year” as part of a “stage 1” prior to the tabling of a draft budget (Consultative Steering Group 1998: Annex I, para. 1.6).

> **Recommendation 2**: The discussion of the draft budget should be preceded by a formal **medium-term budget policy statement** that is tabled annually and discussed in Parliament prior to the tabling of the annual budget proposal in the autumn. The medium-term budget policy statement should, within the context of the economic outlook, set out the government’s fiscal policy objectives and its broad priorities for the budget. It should be tabled sufficiently far in advance, about six months prior to the start of the fiscal year, to allow meaningful parliamentary discussion that is informed by public consultation and engagement.

To be a meaningful actor in the budget process, legislators should have the authority to make amendments to the budget, and it should be possible in practice to use this authority where deemed appropriate. The Westminster tradition suppresses outright parliamentary amendments, but many other parliamentary bodies have amendment powers and routinely make changes to the government budget proposal, based on the scrutiny of the budget proposal in parliamentary committees. In Scotland, FIAG recommended Parliament first discussing a draft budget prior to formal approval of a detailed budget without the possibility of amendments. This process may reflect a desire to give the Parliament a say, but it also reveals a hesitation to decisively break with Westminster conventions in this regard. From a comparative perspective, this is an unusual and cumbersome process. A more natural sequence would be for the budget to be tabled and debated, with the possibility of parliamentary amendments in this process. If the budget proposal responds to any issues raised in Parliament during the pre-budget debate, a large volume of amendments would be unlikely.

> **Recommendation 3**: The government should table a **single budget proposal in the autumn** that should be scrutinised by parliamentary committees and debated in the plenary, with the **possibility to table and adopt amendments**. This would replace the current draft budget stage with the tabling of a formal budget proposal during the autumn. Maximum amendment authority would allow any changes to government tax and spending proposals. At a minimum, it should be possible for MSPs to amend the budget by shifting funds from one item to another or by reducing an expenditure, and to amend tax measures in a way that does not result in a lower budget balance than in the government proposal. Amendments should not be tied to a vote of confidence in the government.

To ensure that parliamentary review is disciplined and co-ordinated requires a strong role for the Finance Committee in this process. Some parliaments bundle the scrutiny of taxation and spending in a single committee, while others maintain separate committees, for example in Germany and Sweden. Parliaments that engage actively in the budget process, including by making amendments, ensure that strong financial committees are in place to guide this process. In Sweden, the Finance Committee is instrumental in reviewing total spending as well as allocations across the different expenditure areas, leaving sectoral committees to focus on spending within sectors under their jurisdiction. The New Zealand Parliament's Finance and Expenditure Committee also plays a co-ordinating role, although the possibility for changes is limited. The process in the German Parliament centralises decision-making in the Budget Committee, but benefits from sector-specific knowledge through a rapporteur system in which members develop specialised expertise and scrutinise specific parts of the budget.

> **Recommendation 4**: A central role for the Finance Committee is essential for co-ordinating parliamentary decisions on the single budget proposal tabled in the autumn. Similar to the process in Sweden, **the Finance Committee should first consider the budget aggregates and allocations across the main spending areas**, and make recommendations that are debated and put to a vote in the Parliament.

> **Recommendation 5**: Based on the framework established in the first parliamentary decision on the budget aggregates and allocations across the main spending areas, a second stage of parliamentary review should involve **detailed scrutiny of expenditure priorities within specific sectors by the relevant subject committees**. Any amendments proposed by the committees at this stage should be consistent with the framework established in the first parliamentary decision.

> **Recommendation 6**: Given increased devolution of authority over taxation, the Scottish Parliament should consider the establishment of separate committees to scrutinise spending and taxation. A **separate committee on taxation** could help to ensure that appropriate attention can be given to the expenditure as well as the revenue side of the budget.

An increasing number of countries are attempting to incorporate a gender perspective into the decision-making process on budgets. This is an ongoing process, and it is still too early to evaluate many of these initiatives. There are various mechanisms to increase consideration of equality issues in the context of the budget process, such as incidence analysis from an equality perspective, or relevant performance information.

> **Recommendation 7**: The BPRG should explore options for increasing the provision of equality relevant information. This should include **gender incidence analysis** that quantifies the impact of budget measures on men and women, alongside other distributive impacts based on age and household income.

Many countries have attempted to strengthen the performance orientation of the budget process by incorporating information on outputs or outcomes into budget documents, sometimes in combination with targets. The New Zealand Parliament appropriates on an output basis (i.e. the goods and services produced), creating a strict link between outputs and allocated funding, which is very rare. In Australia, Parliament approves funding on an outcome basis (i.e. the intended impact on society). The introduction of this approach has led to a loss of parliamentary control and given substantial discretion to the executive. In Sweden, performance information has been of limited use to parliamentarians in assessing proposed appropriations for agencies. Impacts can rarely be clearly attributed to a specific government programme. Moreover, their achievement has no obvious relation to the government's 12-month accounting period, i.e. the financial year, and typically has to be assessed over longer time periods of varying length. Enthusiasm for performance budgeting is greatest in countries where the budget process is dominated by the executive. The German Parliament, the most influential of the legislatures surveyed for this study, has rejected an initiative by the Ministry of Finance to reduce the number of line items.

> **Recommendation 8**: The BPRG should adopt a **cautious approach to the incorporation of performance information** into budget documents. Only performance information that is directly linked to spending figures should be presented. Outputs can be attributed to a specific programme and fiscal year, which means that government bodies can be held to account for their delivery. In contrast, an excessive focus on outcomes is likely to weaken accountability, as many impacts cannot be clearly attributed. Programmes should be linked to outcomes, so that their effectiveness can be assessed against stated objectives.[17] However, the large-scale introduction of outcome information into annual budget documents is not recommended.

> **Recommendation 9**: Parliamentary **approval of spending should be at the programme level**. The budget documents should spell out the financial cost of each programme for at least the current year, the budget year, as well as the medium term, under the assumption that current policy is maintained. Ideally, the budget should also contain past expenditure information at the programme level. Parliament should be consulted to determine to what extent spending should also be presented on the basis of other classifications, in particular economic and functional.[18] Virement rules should set limits for shifting funds between approved programmes to ensure parliamentary oversight and control of in-year adjustments.

While an outcome focus provides a poor basis for parliamentary scrutiny of the annual budget, it is crucial that parliaments assess the effectiveness of programmes. Ultimately, such information should inform decisions about the allocation of financial resources. However, a budget proposal filled with outcome measures and targets will not enable such an approach. Performance can be assessed as part of

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[17] For example, the Scottish Government's work on planning for outcomes in reoffending provides a good basis for thinking about how outcomes could be linked to budgets at a programme level (Bisset 2015).

[18] Programme budgeting is discussed in Kraan (2007) and Robinson (2007), and Jacobs et al. (2009) give an overview of budget classifications.

other processes in government, based on credible impact evaluation. For parliaments, value for money audits – especially those that focus on effectiveness – can be a valuable source of information on the impact of individual programmes. The link between audits and the budget approval process is often poorly developed, but there are mechanisms that promote such a link. In the German Parliament, the fact that the audit committee is a sub-committee of the Budget Committee ensures that members directly draw on their knowledge of audit insights in making decisions about budgets, including amendments. In New Zealand, subject committee scrutiny of the estimates benefits from the evidence and advice of the Auditor General.

> **Recommendation 10**: The Auditor General for Scotland and the Scottish Parliament should consider **broadening the flow of relevant audit information** to parliamentary committees beyond the Public Audit Committee. This could involve the Auditor General giving evidence and advice to different committees including during the budget approval process to highlight relevant aspects of audits.

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