

Institution: London School of Economics and Political Science
Unit of Assessment: 21: Politics and International Studies
Title of case study: Improved public budgeting and performance auditing
<p>1. Summary of the impact</p> <p>Professor Patrick Dunleavy and Dr Joachim Wehner have led research on improving public budgeting and performance auditing. This research has transformed the quality and coverage of OECD data, with a direct impact on processes of peer learning across 34 OECD member states as well as specific reforms. Later work for the United Kingdom's Department for International Development (DFID) created the first dataset on government budgeting practices across Africa, which is a valuable tool for guiding budgetary reform on the continent. In addition, the research into performance audit practice has underpinned work with the European Court of Auditors to develop research methods in 'value for money' (VFM) studies. This work has improved financial reporting to the European Parliament and wider professional and public audiences.</p>
<p>2. Underpinning research</p> <p><i>Research Insights and Outputs:</i> Research by Dunleavy and Wehner, working with the LSE Public Policy Group (PPG), has centred on two linked projects:</p> <p><i>A. Expanding knowledge and understanding of comparative government budget practices</i> Research in government budgeting has been hamstrung for many years by lack of reliable cross-national data on budget practices. Whilst researching the topic, Wehner realized that an early Organisation for Economic Cooperation and Development (OECD) database on budget practices had shortcomings in terms of data quality, and re-contacted country officials to clarify, 'clean' and revise data. Wehner additionally undertook field visits to four EU countries as part of OECD budget system review missions: Romania (2004), Slovenia (2004), Croatia (2005), and Greece (2007), all published in the <i>OECD Journal on Budgeting</i> (www.oecd.org/gov/budget/journal). Wehner's work led the OECD to commission him to undertake a survey extension to cover 11 Latin American countries in 2005-6, and to redraft the complete survey instrument for an OECD-wide survey in 2006-7. In 2007-8, the World Bank funded Wehner and Dr Paolo de Renzio (previously at LSE, now at the International Budget Partnership) to collect compatible data covering Asian, BRIC (Brazil, Russia, India and China) and developing countries, and the UK Department for International Development funded an extension of the Survey of Budget Practices and Procedures for African countries. This work increased data coverage from around 30 to almost 100 countries, and improved the reliability of the information.</p> <p>The data were incorporated in Wehner's initial research on legislative budgeting [1,2] and a subsequent book [3]. This research investigates the institutional requirements for legislative control of the budget process and can be used by legislators to identify possible institutional reforms if they wish to strengthen parliamentary oversight. The data were also relevant for journal articles in which Wehner established the influence of executive [4] and legislative [5] structures for public budgeting performance. This research highlights the importance of 'common pool resource' (CPR) problems in the emergence of fiscal stress. These problems arise when budgetary decision-makers fail to consider the full cost of their actions, leading to excessive expenditure and deficits. The research shows that such problems can be mitigated through institutional constraints. Overall, Wehner's work establishes a comparative resource that can help governments and legislatures to identify reform options, and it shows how certain reforms are likely to affect budget policy. This has enabled Wehner to support efforts to improve budget procedures in OECD countries.</p> <p><i>B. Studying performance audit by supreme audit institutions</i> Professor Dunleavy and PPG staff developed expertise in performance audit practice when working closely with the UK National Audit Office (NAO) from 1998 to 2009 in reviewing around</p>

440 published 'Value for Money' (VFM) study reports and drawing lessons for future work [references 6 and 7 provide an outline of this confidential work]. In the same period, Dunleavy and PPG staff, working with Professor Helen Margetts (UCL, and since 2004, Oxford), completed seven major VFM reports, covering issues such as Citizen redress [8]. In mid-2009 PPG ceased to be a 'strategic partner' of NAO and subsequently Dunleavy was able to draw upon 13 years of extensive research and close working with NAO in his co-authored book *Growing the Productivity of Government Services*, which demonstrated a huge range of productivity experiences across major Whitehall agencies [9].

Key researchers: Professor Dunleavy has been at LSE since 1997; Dr Wehner has been at LSE since 2004.

3. References to the research

1. J. Wehner. (2006) 'Assessing the Power of the Purse: An Index of Legislative Budget Institutions', *Political Studies*, 54(4): 767-785. Reprinted in R. Stapenhurst, R. Pelizzo, D. Olson and L. von Trapp, Eds. (2008). *Legislative Oversight and Budgeting: A World Perspective*. Washington, DC, World Bank: 79-97. DOI: 10.1111/j.1467-9248.2006.00628.x.
2. J. Wehner (2007). 'Budget Reform and Legislative Control in Sweden', *Journal of European Public Policy* 14(2): 313-332. DOI: 10.1080/13501760601122704
3. J. Wehner (2010) *Legislatures and the Budget Process: The Myth of Fiscal Control*. Basingstoke and New York: Palgrave Macmillan. <http://eprints.lse.ac.uk/28575/>
4. J. Wehner (2010) 'Cabinet Structure and Fiscal Policy Outcomes', *European Journal of Political Research* 49(5): 631-653. DOI: 10.1111/j.1475-6765.2009.01914.x
5. J. Wehner. (2010). "Institutional Constraints on Profligate Politicians: The Conditional Effect of Partisan Fragmentation on Budget Deficits." *Comparative Political Studies* 43(2): 208-229. DOI: 10.1177/0010414009347828
6. Patrick Dunleavy, (1999) 'Les institutions superieures de controle dans un environnement en mutation', *Revue Francaise d'Administration Publique* 90: 285-291. <http://eprints.lse.ac.uk/7278/>
7. Dunleavy, Patrick and Gilson, Christopher and Bastow, Simon and Tinkler, Jane (2009) *The National Audit Office, the Public Accounts Committee and the risk landscape in UK public policy*. The Risk and Regulation Advisory Council, London, UK <http://eprints.lse.ac.uk/25785>
8. P. Dunleavy et al., (2010) 'Joining up citizen redress in UK central government', in M. Adler (ed) *Administrative Justice in Context* (London: Hart), Chapter 17, pp. 421-56. <http://eprints.lse.ac.uk/28133/>
9. P. Dunleavy and L. Carrera (2012). *Growing the Productivity of Government Services*, Chichester: Edward Elgar. <http://eprints.lse.ac.uk/46380/>

Evidence of quality: five of these items are articles in leading peer-reviewed journals (1,2,4,5,6), two are books with leading publishers (3,9), one is a major report for a government agency (7), and one is an article in a highly-regarded edited collection (8).

4. Details of the impact

Nature of the Impact: PPG has applied academic expertise and knowledge of comparative practices to substantially improve budget procedures and financial and performance reporting in large organisations, thereby enhancing transparency and accessibility to a variety of stakeholders.

A. Improving peer learning and budget practices

OECD's peer learning efforts centre on its annual Senior Budget Official (SBO) meetings, where detailed country reports produced by OECD study teams are discussed. Wehner regularly attended SBO meetings from 2008 to 2013, and served in five budget review teams, covering Estonia (2008), Bulgaria (2009), Latvia (2009), Lithuania (2010) and Luxembourg (2011). These form an important part of peer group learning by senior budget staff of the countries involved. In September 2012 Wehner was invited to join the OECD Advisory Panel on Budgeting and Public Expenditures, composed of former SBO chairmen and selected academics and experts. Wehner has contributed to OECD's peer-learning advice to member governments on public budgeting, using its evidence base. Other international bodies including the IMF [A] and the World Bank [B]

also cite his work on budget structures and reforms. Wehner's research has been incorporated into the IMF's globally-promoted series of Technical Notes and Manuals [C].

Inherently, international peer learning at top government levels is a confidential process of mutual exchange, and the OECD's role is advisory and not executive. Still, Wehner's work has directly shaped budget reform efforts in some countries. In Luxembourg, the finance minister acknowledged the OECD review as a stimulus for change and the main recommendations – such as the adoption of a medium-term framework – are being implemented [D]. In March 2012, Wehner gave evidence in front of a committee of the Canadian Parliament on how to strengthen financial scrutiny. Several of his recommendations – such as to appropriate money on a program basis instead of more aggregated totals so as to limit executive discretion during the execution of the budget – were adopted by the committee and are part of current reform debates [E].

B. Understanding budgeting in African governments

As development aid policies have shifted away from funding specific projects and towards 'budget support' funding and developing 'good governance', accurate knowledge of government budgeting practices in target countries is essential. But evidence here is often scarce or unreliable: Wehner's work filled a key gap for DfID, World Bank and other donor agencies. The budgeting databases are available on OECD and CABRI (Collaborative Africa Budget Reform Initiative) websites, and are valued by the IMF [F] and the World Bank [G]. Gabriel Negatu, Director at the African Development Bank, described the 2009 research as a "landmark in guiding reforms in budget institutions and practices in Africa" [H].

C. Improving financial reporting in the European Court of Auditors

As a result of their earlier track record with the UK's National Audit Office, from 2009-11 Dunleavy and PPG were contracted by the European Court of Auditors (ECA or 'the Court') to review the content and presentation of half of their 'special reports' (essentially VFM studies) and their Annual Report. This contract was renewed in 2011 for 3 more years. The Court is the 'fifth institution' in the European Union, responsible for monitoring the legal and financial regularity of all the European Commission's directorate-generals and other EU institutions.

The Court's primary output is a single, long *Annual Report* (AR), which goes to the Budget Committee of the European Parliament. The Court also produces a number of Special Reports (SRs) which set out the results of selected performance and compliance audits of specific budgetary areas or management topics, also considered by the European Parliament. Along with many internal changes, external evaluation feedback was brought in to provide important key performance indicators (KPIs). PPG's advice, along with that of the other external evaluator Ernst and Young, and internal factors, helped the Court to introduce significant changes in the 2010, 2011 and 2012 Annual Reports (published a year after their coverage year) [I] along with improvements to Special Reports. Relevant changes included:

- a whole new chapter in the Annual Report on "Getting the most out of the EU budget" which addressed PPG recommendations on making performance more visible and strengthening the VFM focus of ECA reporting;
- an Information Note with the 2011 Annual Report that set out more clearly why ECA's work and reports are important for helping citizens to assess the quality of EU financial management;
- notable improvements in ECA's presentations of graphs, figures, and data; and
- a closer link between evidence in Special Reports and discussions in the Annual Report, one of PPG's specific suggestions [J].

Collectively these changes were major innovations for the Court.

In addition, Dunleavy delivers a feedback report each year to 120 senior ECA staff on PPG recommendations, covering both the Annual Report and Special Reports. In 2012 and 2013 he met the Court's President Vítor Caldeira, and also chaired a key 35th year anniversary conference session with leading MEPs.

In May 2013 the European Parliament's Budget Committee considered the PPG and Ernst and

Young reports, and strongly endorsed the recommended shift to performance budgeting. From January 2014, both evaluators' feedback will be publicly available, including KPI scores: this is an important change in the rigour of ECA's public accountability and transparency – a strong emphasis of PPG.

Wider implications: Beyond its more immediate impact, this work contributes to a wider debate in the wake of the global economic crisis and the sovereign debt crisis in Europe on more effective accountability and oversight in public finance. A renewed emphasis on strengthening budget governance is reflected in recent initiatives by the OECD and the IMF to revise budget principles and guidance on fiscal transparency practices.

5. Sources to corroborate the impact

All Sources listed below can also be seen at: https://apps.lse.ac.uk/impact/case_study/view/49

- A. Lienert, I. (2010). "Should Advanced Countries Adopt a Fiscal Responsibility Law?", IMF Working Paper WP/10/254. <https://apps.lse.ac.uk/impact/download/file/1138>
- B. Hasnain, Z. (2011). "Incentive Compatible Reforms: The Political Economy of Public Investments in Mongolia", World Bank Policy Research Working Paper 5667. <https://apps.lse.ac.uk/impact/download/file/1140>
- C. Lienert, I. (2010). "Role of the Legislature in Budget Processes", IMF Technical Notes and Manuals, April 2010. <https://apps.lse.ac.uk/impact/download/file/1142>
- D. On the OECD review of Luxembourg's budget system: www.mf.public.lu/actualites/2011/11/ocde_progr_budget_251111/index.html. The influence of the OECD report on specific government reforms is documented in this presentation by the Ministry of Finance: <https://apps.lse.ac.uk/impact/download/file/1146>
- E. "Strengthening Parliamentary Scrutiny of Estimates and Supply", Report of the Standing Committee on Government Operations and Estimates, June 2012, 41st Parliament, 1st Session, House of Commons, Canada. <https://apps.lse.ac.uk/impact/download/file/1148>
- F. Dabla-Norris, E. et al. (2010): "Budget Institutions and Fiscal Performance in Low-Income Countries", IMF Working Paper WP/10/80, <https://apps.lse.ac.uk/impact/download/file/1149>
- G. The World Bank website cites the OECD, Asian and African survey datasets as key online resources and states that they 'benefited from the collaboration between international organizations, finance ministries, civil society organizations, and peer learning groups'. <http://go.worldbank.org/C5XBXDV280>
- H. See <http://allafrica.com/stories/200904140895.html>. The summary report "Budget Practices and Procedures in Africa 2008" is available at: <http://www.cabri-sbo.org/en/programmes/budget-practices-and-procedures/>
- I. Testimony from Director of the Presidency, European Court of Auditors. This source is confidential.
- J. Changes in ECA's AR for 2010-12 <https://apps.lse.ac.uk/impact/download/file/1384>, such as the new 'Getting Results from the EU Budget' (Ch. 10 in 2011 and 2012, Ch 8 in 2010) are visible:
 - for 2012 at to be published on 5/11/13.
 - for 2011 <https://apps.lse.ac.uk/impact/download/file/1371>
 - for 2010 <https://apps.lse.ac.uk/impact/download/file/1372>
 On changes in the consistency of ECA presentation and reporting <https://apps.lse.ac.uk/impact/download/file/1374>, for an example compare see Chart 1.1 page 27 of the ECA Annual Report 2008, compared with the much improved Graph 1.1 page 19 of the 2010 Annual Report <https://apps.lse.ac.uk/impact/download/file/1372>; see also *Information Note* on the 2011 report with a Foreword from the President setting out changes similar to those recommended by PPG. <https://apps.lse.ac.uk/impact/download/file/1376>