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Influencing the Budget During the Formulation Stage

WFD Financial Accountability Series
Briefing Paper 7

London, October 2020

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Acknowledgements and disclaimer

The policy brief 'Influencing the Budget During the Formulation Stage' is the product of Westminster Foundation for Democracy (WFD). It was made possible through funding received from the United Kingdom's Foreign, Commonwealth and Development Office (FCDO).

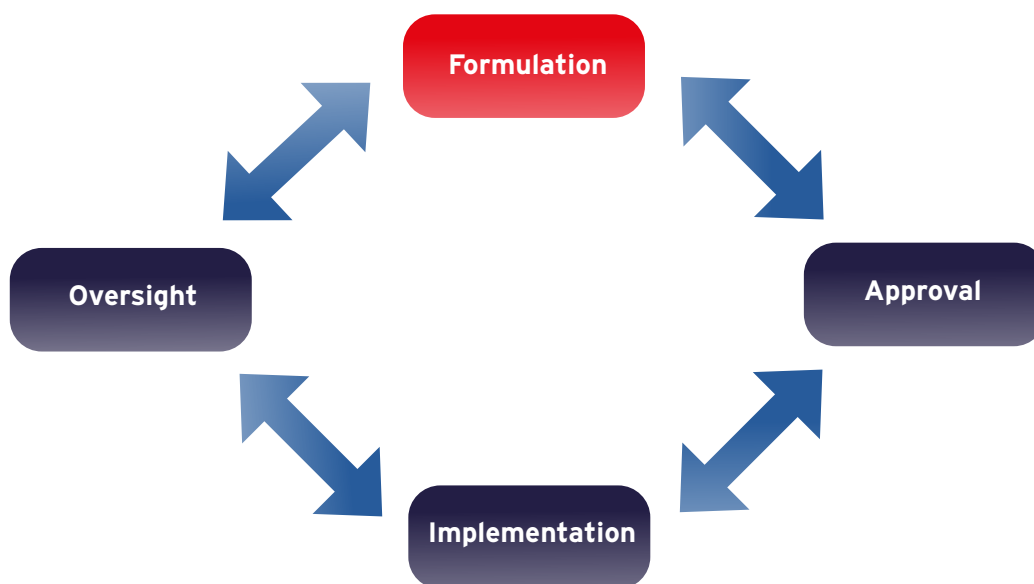
The paper was written by Geoff Dubrow, and peer-reviewed by Victoria Hasson, Carlotta Redi, David Thirlby, Rosie Frost, Petar Trajkov and Franklin De Vrieze. It was published in October 2020.

The views expressed in the paper are those of the author, and not necessarily those of or endorsed by the parliaments or institutions mentioned in the paper, nor of the UK Government.

Introduction

As part of Westminster Foundation for Democracy's (WFD) eight-part series on financial accountability, this brief is focused on how parliament and civil society can influence the formulation of the budget. Citing data from the 2019 Open Budget Survey (OBS) and the Organization for Economic Development and Cooperation (OECD), this brief outlines:

- The advantages to starting parliamentary scrutiny at the formulation stage (rather than the approval stage).
- Entry points for parliament and civil society to contribute to the formulation stage, which includes: release of the government's pre-budget statement (PBS); pre-budget debate; pre-budget consultations held by the executive branch; and in rare cases, pre-budget consultations held by parliament.
- The importance of consulting inclusively so that consultations - whether led by the government or parliament - include the most vulnerable groups in society.



Why start scrutiny at the formulation stage?

One question that could be posed is: why not just wait until the approval stage, when the government submits the draft budget to parliament, for parliament to become active in the budget process? After all, the formulation stage is generally considered the purview of the executive branch. To the contrary, it may be argued that since in most countries, parliament's authorisation is required for the executive branch to spend funds, parliament should be able to provide input into the budget while it is being formulated.

Furthermore, during the approval phase, parliaments have a limited amount of time to consider fully the draft budget. According to international standards, the executive should submit the annual budget proposal to parliament at least two months before the start of the fiscal year.¹ There is, however, no standard in place with respect to the amount of time that parliaments actually take to review the budget. Parliament's time for review of the budget during the approval phase is often extremely limited.

1. According to the Public Expenditure and Financial Accountability (PEFA) framework, participating countries receive the highest rating if the executive has submitted the annual budget proposal to the legislature at least two months before the start of the fiscal year. See PEFA Secretariat. 'Framework for Assessing Public Financial Management'. 2nd ed., February, 2016.

In many parliamentary systems, when the draft budget is introduced in parliament, oversight and review may be seen as perfunctory. In general, there are few budget-making parliaments, a prime example being the United States Congress. Parliaments in the Westminster parliamentary tradition generally approve the annual budget without making changes, as amendments to the budget are seen as an effective vote of 'no confidence' and could lead to an election.² Indeed, in half the OECD countries, a vote of the parliament to modify the budget is considered a confidence vote, which constrains any incentive to amend the budget.³ This reasoning helps to explain the fact that while over half of OECD countries report unrestricted powers to amend the budget, in practice 'most OECD parliaments only make minor adjustments to the Executive Budget Proposal (EBP)'.⁴ This is not to suggest that Parliament should not be engaged in the approval stage, but rather to emphasise the point about the importance for parliament to be active at the formulation stage.

What are the entry points for influencing the formulation stage?

Public and legislative input during the formulation stage provides an opportunity for social dialogue concerning the priorities that should be included in the budget. The inclusion of parliament allows parliamentarians to both hear from, and speak on behalf of, their electors, as well as to advocate for policy priorities as political party members.

Given that governments and parliaments both adhere to formal procedures, it is important to identify the entry points for legislative and public participation in the budget. These formal entry points can include:

- release of the PBS by the government;
- pre-budget debate in parliament;
- pre-budget consultations held by the executive branch; and
- in rare cases, pre-budget consultations held by parliament.

What is a Pre-Budget Statement and why is it important?

As part of the formulation phase, governments often release a PBS.⁵ See Box 1. The PBS 'establishes the parameters of the budget proposal before detailed program funding decisions are made' by the executive branch.⁶ 'By laying out the budget's broad parameters, the statement can help create appropriate expectations for the Executive's Budget Proposal'.⁷ These parameters are based in part not only on the policy goals of the government of the day, but also on the resources available to it. Available resources in turn are influenced by: the government's macroeconomic assumptions, the total amount of planned spending, the revenue it is able to collect through taxation and other measures, and the debt that the country will be facing for the upcoming budget year.⁸

2. The Scottish Parliament. 'Comparative Budget Processes'. Scottish Parliament Information Centre (SPICe). May 2008.

3. Ibid.

4. OECD. Budgeting and Public Expenditures in OECD Countries 2019. April, 2019. Online at: <https://www.oecd.org/governance/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm>.

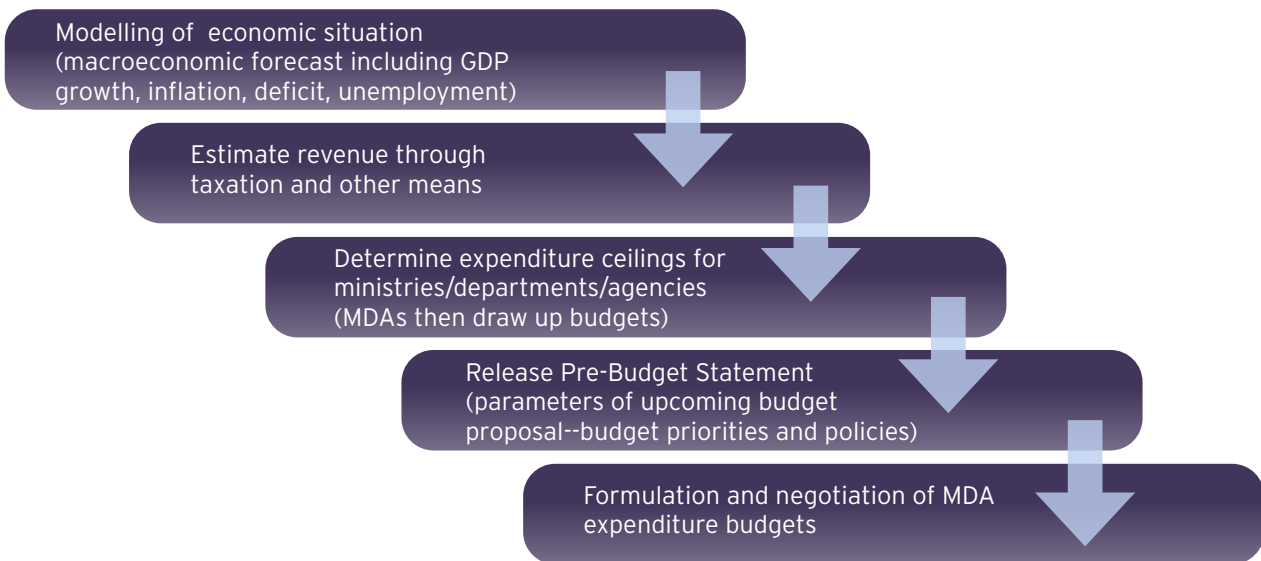
5. As a result of the COVID-19 pandemic, there have been many delays in tabling budget documents, such as the PBS and EBP.

6. International Budget Partnership. 'Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options'. April, 2019, p. 80.

7. Ibid, p. 13.

8. Ibid, p. 80.

Figure 1: Steps in budget formulation stage (national level)⁹



In presenting his first annual PBS in 1997, the UK Chancellor of the Exchequer Gordon Brown stated that the aim of the PBS 'is to report the government's assessment of the economy, to outline our budget aims and to encourage an informed debate of the detailed choices before us'.¹⁰ In that sense, the PBS provides a 'shared understanding of the tasks ahead and that shared sense of national economic purpose'.¹¹ By the time the annual budget is tabled in the parliament, the trade-offs between the government's intentions and the reality of the underlying economic conditions become clear.¹² Additionally, the PBS tends 'to be less technical than other reports, typically putting the budget information into the context of larger fiscal and economic circumstances'.¹³ Globally, of the 117 countries participating in the 2019 OBS, 50% published a PBS.¹⁴

Box 1: Impact of a pre-budget statement

An article appearing in the UK Financial website 'This is Money'¹⁵ in November 2008 demonstrates how pre-budget statements can generate debate and discourse from multiple stakeholders. As part of the government's 'pre-budget report', UK Chancellor of the Exchequer Alistair Darling announced plans to temporarily reduce the value-added tax (VAT) from 17.5% to 15%.

The trade-off: The Chancellor explained that he was going to offset the VAT reduction by raising duties 'an amount which should keep the overall cost to consumers the same this year'.

9. International Budget Partnership. 'The Four Stages of the Budget Process'. No date. Online at: <https://www.internationalbudget.org/wp-content/uploads/MODULE-2-Defining-the-Problem.pdf>

10. UK House of Commons Pre-Budget Statement. HC Deb 25 November 1997 vol 301 cc773-98.

11. Ibid.

12. Ibid.

13. Pamela Gomez with Joel Friedman and Isaac Shapiro. 'Opening Budgets to Public Understanding and Debate: Results from 36 Countries'. OECD Journal on Budgeting Volume 5 - No. 1. 2005

14. International Budget Partnership. 'Open Budget Survey 2019', p. 28.

15. <https://www.thisismoney.co.uk/money/article-1648042/VAT-cut-to-15-in-12bn-boost-to-economy.html>

Box 1: Impact of a pre-budget statement (cont'd)

The political view: The opposition leader at the time stated that he was 'highly sceptical' that the VAT cut would make a difference and that the cut would simply add to the government's debt.

Stakeholder perspectives: Various stakeholder perspectives were presented, including those of retailers, shoppers, consumers of the products subject to the VAT cut, businesses, banks and a UK taxpayer group.

Developing a PBS should not be seen as mechanical exercise, but as a meaningful way to incorporate opinions from key players, such as parliament and civil society. In this way, stakeholders have time to react to the PBS and provide feedback to the government that can be incorporated into the formulation process. The OBS therefore recommends that the PBS be made public at least four months in advance of the budget year, and at least one month before the EBP is introduced in parliament.¹⁶ This proviso provides the executive branch with time to incorporate feedback from its consultations and legislative debate into the formulation stage.¹⁷

What are the benefits of a pre-budget debate?

The advantage of a pre-budget debate is that parliament is provided with the opportunity to discuss budget priorities or, if available, provide feedback on the PBS. Pre-budget debates have become a trend in OECD countries. In 2012, only three OECD countries reported holding pre-budget debates, whereas just over one-third of parliaments (13 out of 34) reported holding a pre-budget debate in 2018. According to international best practice, the PBS should present information on the government's spending policies and priorities that will, with the publication of the EBP, guide the development of the detailed estimates in the upcoming budget.¹⁸ Where the government provides this information, it can highlight its policy priorities and the opposition can present its views and alternatives. This allows for a discussion of competing narratives prior to the actual publication of the EBP. Additionally, the opposition can point to their own priority areas that have been typically underfunded in previous budgets. About half of the parliaments holding a pre-budget debate also forward a report to the government.

In some parliaments, as an alternative to a pre-budget debate in plenary, the budget committee will hold its own review of the PBS. Just over 10% of OECD member parliaments (four out of 36) reported that their budget committee holds a pre-budget debate. In Ireland for example, the Committee on Budgetary Oversight holds pre-budget hearings on budgetary priorities and issues a report to the plenary.¹⁹ Outside of the OECD countries there is, unfortunately, no data available on the number of parliaments that hold a pre-budget debate.

16. International Budget Partnership. 'Open Budget Survey 2019', p. 14.

17. Of the 59 countries not making their PBS public, 39 were either publishing it less than one month in advance, not publishing it online or producing it for internal government use only. The remaining 20 countries did not produce a pre-budget statement. See International Budget Partnership. 'Open Budget Survey 2019'. Annex E. Open Budget Survey 2019: public availability of budget documents.

18. International Budget Partnership. 'Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options'. Question 55, p. 81.

19. OECD. Budgeting and Public Expenditures in OECD Countries 2019. April, 2019. Online at:

<https://www.oecd.org/governance/budgeting-and-public-expenditures-in-oecd-countries-2018-9789264307957-en.htm>.

Box 2: Debating pre-budget priorities in Pakistan in the age of COVID-19

In Pakistan, the Sustainable Social Development Organisation (SSDO) demanded in May 2020 that a virtual session of the National and Provincial Assemblies be held 'to discuss the budget priorities for the upcoming fiscal year 2020-21'.²⁰ While Pakistan does not produce a PBS, pre-budget sessions are mandatory before the budget is presented. However, as a result of the COVID-19 pandemic, the assemblies have not held a debate on the upcoming annual budget. SSDO highlighted that: 'budget policy should not be treated as a secret during the preparation phase. Rather its broader contours such as investment decisions in the social development sector, pro-poor expenditures, and fiscal policy measures such as taxation must be debated in the federal and provincial assemblies'. SSDO argued that particularly in the time of COVID-19, the importance of an open debate has actually increased as demands are changing for the allocation of resources for social development such as public health, pro-poor expenditures such as social protection, and also public sector investments in the job-creating sectors.²¹

How do pre-budget consultations enhance public participation?

While the OBS found that 56 of the 117 countries surveyed had at least one mechanism for the public to be consulted by the executive branch in formulation of the budget,²² there is room for improvement for governments to consult proactively in a more inclusive manner.

According to the Global Initiative for Fiscal Transparency's (GIFT) Principles of Public Participation in Fiscal Policies, governments should 'proactively use multiple mechanisms to reach out to engage citizens and non-state actors, including traditionally excluded and vulnerable groups and individuals, and voices that are seldom heard, without discrimination on any basis'.²³ Public input should be considered 'on an objective basis irrespective of their source'.²⁴ However, of the 56 countries employing at least one consultation mechanism, only 16 had a consultation mechanism that is 'open to everyone'. Furthermore, only six of the 56 had participation processes where efforts were made to reach vulnerable groups.²⁵

20. The News International (Pakistan). 'Virtual Sessions for Pre-budget Discussion Demanded'. 21 May 2020.

21. Ibid.

22. Mechanisms referred to in the OBS are: focus groups, social networks, surveys, hotlines, and meetings/events in universities or other locations where people gather to discuss public issues.

23. Without discrimination on any basis including nationality, race, ethnicity, religion, gender, sexual orientation, disability, age or caste.

24. Global Initiative for Fiscal Transparency (GIFT). 'Principles of Public Participation in Fiscal Policies'. Principle 3, Inclusiveness. March, 2016.

25. International Budget Partnership. 'Open Budget Survey 2019', p. 51.

Box 3: Strengthening pre-budget consultations in South Africa

According to the OBS, South Africa's National Treasury conducts pre-budget submissions during the budget formulation stage. Although South Africa ranked second overall of 117 countries surveyed, the OBS recommended that to further strengthen public participation in the budget process, the Treasury should 'actively engage with vulnerable and under-represented communities, directly or through civil society organizations representing them; and provide feedback on how public inputs collected during pre-budget consultations and budget implementation are used by the government'.²⁶ In July 2015, the GIFT noted: 'despite legal reforms for more public participation in the budget, South Africans are still struggling to find ways to have more influence over how public money is spent'. GIFT also recommended that the South African government consider public input into the Medium Term Budget Policy Statement (MTBPS).²⁷

According to GIFT's Principles of Public Participation, governments should 'provide full information on and be responsive with respect to the purpose of each (consultative) engagement, its scope, constraints, intended outcomes, process and timelines as well as the expected and actual results of public participation'.²⁸ The OBS assesses the scope of issues raised for discussion through participation mechanisms, based on six key budget topics:

- macroeconomic issues
- revenue forecasts; policies and administration
- social spending policies
- deficit and debt levels
- public investment projects
- public services²⁹

How prevalent are parliamentary pre-budget consultations?

While still a rarity, parliaments can also hold their own pre-budget consultations. Advantages of parliamentary pre-budget consultations include: providing a public forum for interested parties (citizens, as well as public, private and not-for-profit organisations) to present and explain their recommendations on priorities for inclusion in the next budget; providing a written record of public views for consideration by the Ministry of Finance and others; and strengthening the representative function of parliamentarians by providing a forum to solicit and hear the viewpoints of the aforementioned interested parties.³⁰

In New Zealand, the Finance and Expenditure Committee can invite submissions from the public as part of its consideration of the government's Budget Policy Statement. See Box 4. In Canada, the House of Commons Standing Committee on Finance has conducted pre-budget consultations since 1994. See Box 5.

26. Open Budget Survey 2019. 'South Africa'. Online at: <https://www.internationalbudget.org/open-budget-survey/country-results/2019/south-africa>.

27. Global Initiative for Fiscal Transparency (GIFT). 'South Africa. Public Participation Mechanisms in Fiscal Matters'. July, 2015. Online at: <http://www.fiscaltransparency.net/southafrica.pdf>

28. Global Initiative for Fiscal Transparency (GIFT). 'Principles of Public Participation in Fiscal Policies'. Principle 2, Openness. March 2016.

29. International Budget Partnership. 'Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options'. April, 2019, p. 137.

30. Geneviève Tellier. 'Canadian Public Finance. Explaining Budgetary Institutions and the Budget Process in Canada'. University of Toronto Press. 2019, p. 127.

Box 4: Debating and consulting on the pre-budget statement in New Zealand

In New Zealand, the Budget Policy Statement (BPS), which 'must provide details of the broad strategic priorities guiding the government in the preparation of the budget for the upcoming financial year', is referred to the Finance and Expenditure Committee for examination.³¹ The BPS is usually presented at the same time as the Half Year Economic and Fiscal Update (HYEFU).³²

The Committee has 40 working days to report back to the House of Representatives on the BPS. During this process, the Committee can invite submissions from the public and question the responsible minister on the statement. For the 2019 BPS, the Committee received 66 submissions and both the Minister of Finance and the Secretary to the Treasury appeared before the Committee.³³ Once the Committee report has been presented, a debate, of two hours duration, is held in plenary on the BPS and the Committee report.³⁴

Box 5: Pre-budget consultations in the Parliament of Canada

'Since 1994, the House of Commons Standing Committee on Finance has conducted pre-budget consultations. Consultations are often structured around a number of topics related to the government's budgetary policy. The committee solicits written submissions from individual Canadians and interested organizations during the summer, holds public hearings (often across the country during the fall) and presents a report to the House of Commons in December. The budget is typically tabled in February'.³⁵

The Committee conducted its pre-budget consultations in advance of the 2018 budget from 19 September 2017 to 1 December 2017. The Committee heard from over 300 witnesses and received more than 400 written briefs via its website. The Committee report contained 92 recommendations.³⁶

Although the government is not obligated to act on the committee's recommendations, 'the pre-budget consultations provide an opportunity for parliamentary input into the budget planning process, as well as public discussion and debate regarding the government's spending and taxation priorities'.³⁷

31. Parliament of New Zealand. 'The Budget Policy Statement'. December, 2019. Online at: https://www.parliament.nz/en/pb/library-research-papers/research-papers/the-budget-policy-statement/#_ftn21

32. Known generally as a 'fiscal update', which outlines the current state of the economy.

33. New Zealand House of Representatives. 'Budget Policy Statement 2019. Report of the Finance and Expenditure Committee'. Fifty-second Parliament. February, 2019.

34. Parliament of New Zealand. 'The Budget Policy Statement'. December, 2019. Online at: https://www.parliament.nz/en/pb/library-research-papers/research-papers/the-budget-policy-statement/#_ftn21



35. Library of Parliament (Canada). 'The Parliamentary Financial Cycle'. Revised October, 2019. Online at: https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201541E#a5.1

36. House of Commons (Canada). 'Driving Inclusive Growth: Spurring Productivity and Competitiveness In Canada'. Report of the Standing Committee on Finance. December 2017.

37. Library of Parliament (Canada). 'The Parliamentary Financial Cycle'. Revised October, 2019. Online at: https://lop.parl.ca/sites/PublicWebsite/default/en_CA/ResearchPublications/201541E#a5.1

Conclusion

Generally, social and media 'hype' surrounds the approval stage of the budget, given the high profile afforded to the budget speech and the accompanying spending announcements. Nonetheless, the best time to influence the budget is while it is in preparation. Having an impact on the budget during the formulation phase can thus yield significant results. This brief has identified a series of entry points, including: the release of the government's PBS, pre-budget consultations launched by the executive branch, and pre-budget debate in the parliament, which often can be triggered by the release of the government's PBS. Parliamentary pre-budget consultations are still a rarity. The OBS notes that governments in half of the countries surveyed employed at least one consultation mechanism. However, OBS notes that in general, governments are not consulting widely and ought to be more proactive in seeking out vulnerable and marginalised groups.



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