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Strengthening the role of Parliament in the Budget Process: the role of Parliamentary Budget Offices

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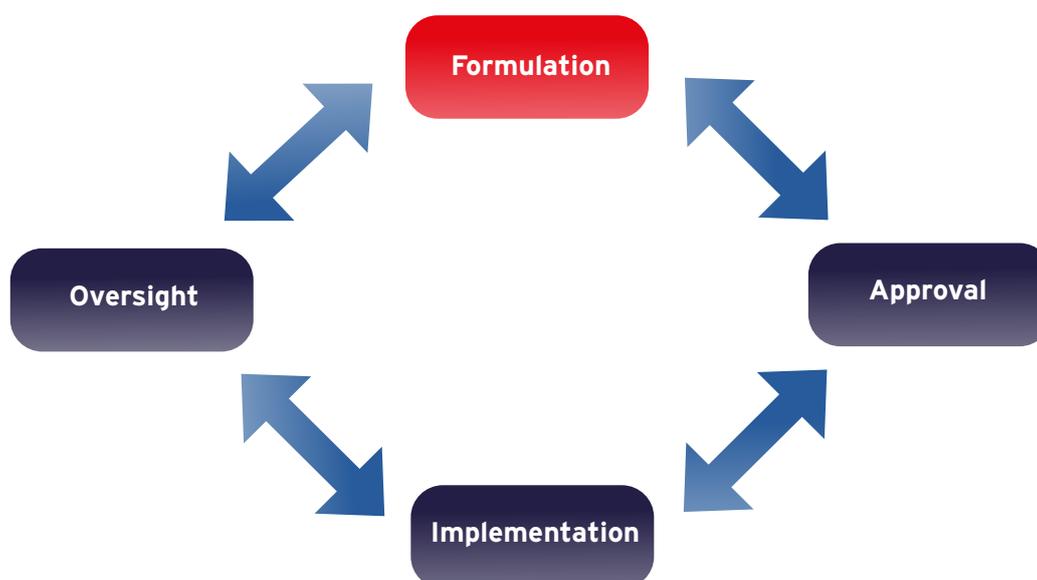
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Introduction

As part of Westminster Foundation for Democracy's (WFD) eight-part series on financial accountability, this brief focuses on the role of the Parliamentary Budget Office (PBO). The majority of the work of the PBO takes place during the budget formulation phase, although some of the PBO's work could occur outside the regular budget cycle.¹ Citing examples from WFD's experience supporting PBOs, this brief examines:

- the role of the PBO
- how PBOs add value to the work of Parliament's oversight of the budget
- standards for collaboration between the PBO and parliament.

This brief also proposes a number of key performance indicators (KPIs) that can be used to track the effectiveness of a PBO in relating to parliament and other key stakeholders.



What is a Parliamentary Budget Office?

PBOs are among a group of institutions known as 'independent fiscal institutions' (IFIs).² IFIs are 'independent public institutions with a mandate to critically assess, and in some cases provide non-partisan advice on, fiscal policy and performance'.³ More detail is provided in Box 1. PBOs can play the following functions:

- independent analysis, review, and monitoring of government's fiscal policies, plans, and performance;
- developing or reviewing macroeconomic and/or budgetary projections; and
- costing of budget and policy proposals.⁴

1. For example, if the government was to announce significant changes to a major programme outside of the regular budget cycle.

2. Fiscal councils are also referred to as IFIs. The fiscal councils perform a role for fiscal rule compliance and at times for fiscal forecasts associated with government budgets.

3. OECD. 2018. Designing effective independent fiscal institutions. Online at: <https://www.oecd.org/gov/budgeting/designing-effective-independent-fiscal-institutions.pdf>

4. While there is no universal definition available, cost is defined as 'the monetary value of the resources (human, physical and financial) consumed to achieve a certain end'. See Government of Canada. 'Guide to Cost Estimating'. Treasury Board Secretariat. June 2019. Online at: <https://www.tbs-sct.gc.ca/pol/doc-eng.aspx?id=32600§ion=html>.

Box 1: Overview of independent fiscal institutions

Like PBOs, fiscal councils are also members of the IFI community. The primary purpose of a fiscal council is to monitor compliance with fiscal targets and ensure that forecasts are robust and credible. Unlike PBOs, which generally report to parliament, fiscal councils are usually under the statutory authority of the executive branch (or standalone) and have varying levels of independence from the executive branch. Although less prevalent, some IFIs are attached to the Supreme Audit Institution. The International Monetary Fund notes that IFIs may not be warranted in 'lower income or small countries', where the lack of resources might justify prioritising the strengthening of capacity within the ministry of finance.⁵

How do PBOs add value to the work of Parliament?

Of the three types of IFIs identified in Box 1, only PBOs are focused primarily on 'assisting parliamentary oversight of the budget and supporting the work of the main budget committee'. To illustrate, the Ugandan PBO, which was established by the Budget Act of 2001, was developed primarily to support parliament in understanding the documentation provided by the executive branch as part of the budget process. See Box 2.

Box 2: The Ugandan PBO

Parliamentarians come from all walks of life and are not expected to have expertise in finance or economics. The primary role of the Ugandan PBO is therefore 'to provide professional support for Parliament to effectively deal with the massive information and data involved in the budget process'. According to the Revised Budget Handbook prepared by the Ugandan PBO for parliamentarians in 2016:

'Prior to the enactment of the Budget Act, Parliament did not play an active role in the budget formulation process...It had become apparent that information on budget-related matters provided to Parliament was inadequate and MPs were kept ignorant on issues such as local resource revenue, foreign inflows, national expenditure and macroeconomic statistics, hence Parliament was a mere "rubber stamp"'.⁶

When it comes to strengthening the role of parliament in the budget process, here are several examples of how a PBO can level the playing field between the executive and legislative branch:

1. Fiscal forecasting:

Governments are not always fully transparent about the state of the country's finances. For example, they can be prone to understating or overstating the size of the annual budget deficit. In order to decide whether to support or oppose the Executive Budget Proposal (EBP), opposition parties require accurate fiscal forecasts (in particular credible annual forecasting of revenue and expenditure).

5. Israel Fainboim and Ian Lienert. 'The Macroeconomic Function and its Organizational Arrangements'. International Monetary Fund. November 2018.

6. Parliamentary Budget Office. 'Revised Budget Handbook'. Parliament of Uganda. July 2016.

Governments can benefit from understating the size of the deficit. It can take credit from the public for announcing new programmes and projects as part of the EBP, only to quietly stall the projects due to lack of funds after the EBP has been adopted.

Understating the size of the deficit may muffle the opposition's criticism of the EBP. If the government understates the size of the deficit, opposition parties may be expecting a balanced budget or small deficit and be surprised by the fact that when the annual financial statements are released at the end of the fiscal year, the deficit is higher than expected.

In Kenya, for example, the Kenyan PBO reported in 2019 that: 'the actual fiscal deficit is likely to be higher than the estimated amount' and pointed out that 'a low fiscal deficit has been a moving target for the government'.⁷ The PBO pointed out that the consequence of understating the budget deficit could be a reduction of the approved budget later in the fiscal year, leading to the stalling of approved projects.⁸

Conversely, part of the motivation for creating the Canadian PBO stems from the fact that during economic 'booms', governments have historically understated budget surpluses by creating fiscal forecasts with modest surpluses. 'Surprise surpluses' then emerged as 'a backdoor way of allocating funds for political purposes, as well as or instead of avoiding debate on policy priorities'. After all, when the government understated the size of the surplus, opposition political parties were not well positioned to argue for how to spend the excess funds.⁹

2. Growth projections:

Governments often bet on generating economic growth to fund their spending, tax cuts, or both. In the absence of a PBO, governments may have little incentive to produce accurate growth forecasts. The more generous the growth forecast, the more spending or tax-cutting the government can plan for. However, inaccurate growth projections come with consequences. As independent institutions, PBOs often generate their own growth forecasts or review the accuracy of the government's forecast. These approaches can counterbalance the sometimes optimistic growth forecasts provided by government. This can also create a longer-term incentive for governments to provide more accurate forecasts.

When a strong growth forecast is not realised, revenues collected may be lower than expected. Governments may either face an increased deficit, or similar to the scenario in number one above, renege on their promises.

3. Accurate costing:

Policy debates are inherently political. The government may want to move in one particular policy direction whereas some or all of the opposition parties want to move in another. Debates are often complicated further by a lack of agreement on the actual cost of implementing a policy proposal or whether the government has sufficient funds to pay for the implementation of that proposal. The PBO can help take the costing issue 'off the table' by presenting an independent view of estimated cost that can be considered credible across party lines.¹⁰

7. Parliament of the Republic of Kenya. PBO. 'Unpacking the Estimates of revenue and Expenditure for 2019/20 and the medium term. May 2019'. Online at: <http://www.parliament.go.ke/sites/default/files/2019-05/unpacking%20of%20the%20estimates%20of%20revenue%20and%20expenditure%20%202019-20%20Final%2017.5.2019.pdf>

8. Daily Nation (Kenya). 'Report: Treasury Hid Deficit in False Figures'. May 23, 2019. Online at: <https://www.nation.co.ke/kenya/business/report-treasury-hid-deficit-in-false-figures-170586>.

9. Brooke Jeffrey. 'The Parliamentary Budget Officer Two Years Later: A Progress Report'. Canadian Parliamentary Review/Winter 2010.

10. More information on costing of political party electoral platforms/manifestos, is provided in the WFD brief entitled 'Costing and Analysis of Political Party Electoral Platforms (Manifestos)' (Brief number 6 in the eight-part series on financial accountability), published

Furthermore, the PBO serves the greater governance ecosystem by making its findings public. This helps to 'drive smarter, more focused debate in the media and with (the) electorate'.¹¹

In Ukraine, the Financial and Economic Analysis Office (FEAO) was set up with support from WFD and GIZ. Housed in the Verkhovna Rada, Ukraine's parliament, FEAO's mission is to increase the 'efficiency and quality of legislation developed and adopted' by the Rada.¹² In Ukraine, parliamentarians initiate most legislation and regulations.¹³ 70% of the products prepared by FEAO have been used to support discussion of the financial implications of draft legislation.¹⁴

What are the standards for collaboration between IFIs and parliaments?

The 'Recommendation of the Council on Principles for Independent Fiscal Institutions' (the IFI Principles) provides guidance to IFIs.¹⁵ The paragraphs below highlight the principles related to collaboration between PBOs and parliamentary committees, and the development of PBO reports that drive value for parliamentarians.

1. Collaborating with parliamentary committees:

The IFI Principles recommend that: 'mechanisms should be put in place to encourage appropriate accountability to the parliament'. This includes the 'appearance of IFI leadership or senior staff before the budget committee or equivalent to provide responses to parliamentary questions'.¹⁶

As the OECD notes, 'almost all IFIs interact with the parliament in some form'. 94% of IFIs (including both PBOs and fiscal councils) 'participate in parliamentary hearings'.¹⁷ However, as the International Budget Partnership's (IBP) Open Budget Survey (OBS) notes, 'the intensity of the interaction varies'.¹⁸ Having a PBO observe a committee hearing is different from a PBO appearing before a committee as a witness. Measuring the interaction between the PBO and parliamentary committees - through the number of appearances before parliamentary committees and the number of inquiries fielded from parliamentarians - could help PBOs to assess the extent of their interaction with parliament year over year.

The Ukrainian FEAO has tracked its interactions with individual parliamentary committees year over year.¹⁹ These interactions can be found in table 1. Tracking committee use of requests from parliamentarians to the PBO is an essential tool for strengthening the PBO's parliamentary outreach strategy. See Box 3 for an additional example from the Serbian PBO.

October 2020.

11. The Hindu. 'An Independent Fiscal Watchdog for Parliament'. Sept. 21, 2019.

12. Financial and Economic Analysis Office in the Verkhovna Rada of Ukraine. Online at: <http://www.feao.org.ua>

13. For the 8th Convocation of the Verkhovna Rada (November 2014-July 2019), 5,528 of 6,613 laws and regulations considered by the Rada were initiated by MPs. The remainder were drafted by the Cabinet of Ministers or the President of Ukraine. USAID. 'How Government Works in Ukraine'. As of 14 August 2018.

14. OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions. 'Recommendation of the Council on Principles for Independent Fiscal Institutions'. February, 2014.

15. Members of the OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions developed the IFI Principles. It should be noted however that the guidance is meant to apply to other types of IFIs as well, such as fiscal councils. This limits the depth of the guidance regarding the relationship between the PBO and parliament.

16. OECD. 2018. Designing effective independent fiscal institutions. Online at: <https://www.oecd.org/gov/budgeting/designing-effective-independent-fiscal-institutions.pdf>

17. Ibid.

18. International Budget Partnership. 'Guide to the Open Budget Questionnaire: An Explanation of the Questions and the Response Options'. 2016. Washington, DC. Online at: <https://www.internationalbudget.org/wp-content/uploads/open-budget-survey-2017-guide-and-questionnaire-english.pdf>

19. Information provided by WFD Ukraine.

Table 1: Requests from Committees of the Verkhovna Rada to FEAO

Research products requested and delivered by FEAO in Ukraine					
Committee of the Verkhovna Rada	2015	2016	2017	2018	2019
Committee on Budget			43	8	1
Committee on State Building, Regional Policy and Local Self-Government		2	7	8	6
Committee on Fuel and Energy Complex, Nuclear Policy and Nuclear Safety		3	8	6	2
Committee on Social Policy, Employment and Pension Provision		1	2	6	3
Committee on Financial Policy and Banking		3	7	1	
EU Integration Committee	1	6			
Other Committees	4	17	7	2	2
Total	5	32	74	31	14

Box 3: PBO Tracking of parliamentary committee requests in Serbia

The Serbian PBO tracks the number of requests provided by MPs as well as the research it generates. The first PBO office in the Western Balkans, the Serbian PBO, was established with the support of WFD in November 2015. The number of requests coming from MPs in 2017 - the PBO's first operational year - was 16. In 2018 and 2019 the number of research papers and analyses prepared on request was eight in 2018 and six in 2019. However, the total number of prepared analyses and research papers was 64 in 2018 and 68 in 2019.²⁰

2. Reports that drive value for parliamentarians:

The IFI Principles state that 'submission of IFI reports to parliament (should be) in time to contribute to relevant legislative debate'.²¹ In this regard, agility is a crucial attribute of a PBO, particularly in its ability to provide rapid analysis to parliament during the COVID-19 pandemic. See Box 4.

20. Information provided by WFD.

21. OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions. 'Recommendation of the Council on Principles for Independent Fiscal Institutions'. February, 2014.

Box 4: Agile PBOs and the pandemic

According to a recent report on the role of IFIs in promoting fiscal transparency and accountability during the COVID-19 pandemic, IFIs, including PBOs, have been providing rapid analysis of the economic and/or budgetary impact of the pandemic. This includes the development of economic and fiscal forecasts. The report highlights the importance of agility as a key attribute of a PBO:

*'Most IFIs have flexibility and independence in their research agendas and are therefore able to offer economic and fiscal forecasts in real time where resources permit. Governments, on the other hand, often publish planning forecasts only once or twice a year in conjunction with their appropriations cycle. Had a government published its budget documents and medium-term fiscal framework in February, it may not be required to update the public on its outlook for the economy and public finances again until a year later in February 2021.'*²²

In addition to producing timely economic and fiscal forecasts during the pandemic, IFIs have: fielded requests from committees and individual legislators; costed emergency legislation either in an official capacity, upon request of legislators, or as self-initiated scrutiny of official figures; and promoted transparency and accountability for the emergency procedures that governments and legislatures may have introduced to expedite responses to the crisis.

The OECD survey of IFIs found that 94% of IFIs send their key reports to the parliament. However, sending a report to parliament is not the same as preparing a report specifically for parliamentary consumption. As parliamentary institutions, PBOs can improve demand for their reports by obtaining direct feedback from parliamentarians regarding the usability and contents of its reports.

Measuring the frequency with which committee members refer to the work of the PBO when questioning the government in committee, as well as the frequency with which research papers and analyses are requested by and delivered to parliamentary committees, could help PBOs to assess the extent to which their reports are being used in parliament. Furthermore, a survey of parliamentarians and stakeholders can track awareness of PBO reports, the perceived value of various types of PBO products as well as solicit comments to improve the performance of the PBO in serving parliamentarians. See Box 4 for an example.

Box 5: PBO Survey of Parliamentarians

In 2016, the Canadian PBO commissioned a stakeholder survey to 'gauge a better understanding of the drivers for its stakeholders and products, reports and analyses it provides them, and thereby improve its service to parliamentarians and stakeholders'.²³

The Canadian PBO held two focus groups comprising civil servants and political staff. Additionally, 16 'elite interviews of MPs, Senators and Officers and Senior Government representatives' were also held. The survey garnered impressions of the PBO, the future of the PBO as well as questions regarding the extent of use and the value of the work conducted by the PBO.

22. OECD. 'Independent Fiscal Institutions: Promoting Fiscal Transparency and Accountability During the Coronavirus (COVID-19) Pandemic'.

23. Office of the Parliamentary Budget Officer (Canada). 'Reforms to the Office of the Parliamentary Budget officer'. Proposed in Bill C-44. Ottawa, Canada. May 3, 2017.

Box 5: PBO Survey of Parliamentarians (cont'd)

While not necessarily representative of the feedback provided on the PBO by the stakeholders that were interviewed, feedback from one MP demonstrates the importance of consulting with parliamentarians, given that they are the primary end users of PBO reports:

*'I am often surprised that the PBO appears to make decisions on the basis that they know what we want to know. There is no investigating process, they don't ask me what would be helpful. How do they know what to look at? I just get reports on what they think I want to know, but they should actually ask us because it may not be important to me.'*²⁴

FEAO has recognised the need for reports that are digestible by parliamentarians. For example, FEAO has developed a series of one-page information sheets reviewing the spending patterns of 29 ministries/state-owned enterprises. FEAO has also conducted, in more easily digestible formats, 200 analyses of programme budgets. Similarly, the Serbian PBO, which was lauded for its quick turnaround of analysis on the EBP, prepares a series of regular reports in an accessible format to help parliamentarians. For example, a 2019 Brief on Income and Consumption in Households is four pages in length and contains a series of infographics.²⁵

How does PBO independence affect its relationship with parliament?

The IFI Principles state that: 'IFIs should have the scope to produce reports and analysis at their own initiative, provided that these are consistent within the bounds of their mandate. Similarly, IFIs should have the autonomy to determine their own work programme within the bounds of their mandate'.²⁶ Having the autonomy to select its own work programme is important for a number of reasons. First, the PBO needs to have the power to raise issues and concerns that have gone under the radar screen of parliamentarians. Second, as technical experts, the PBO needs to 'act on his or her own judgment of how to allocate resources and prioritise requests'. Third, requiring work plan approval could prevent the PBO from quickly preparing 'new reports in response to changing circumstances related to the nation's finances or economy'. The PBO needs to remain agile in order to provide 'timely analysis of the economic and financial consequences' of economic shocks - such as a recession, natural disaster and the current pandemic.²⁷

24. Nanos Research. 'Consultations with Parliamentary Budget Office stakeholders'. December 16, 2016. Commissioned by the Office of the Parliamentary Budget Officer. Online at: <https://www.pbo-dpb.gc.ca/web/default/files/Documents/Reports/2017/Bill%20C-44/PBO%20-%20NANOS%20Presentation%20revised.pdf>

25. http://pbk.rs/wp-content/uploads/2020/04/Prihodi_i_potrosnja_domacinstva_2019.pdf.

26. OECD Network of Parliamentary Budget Officials and Independent Fiscal Institutions. 'Recommendation of the Council on Principles for Independent Fiscal Institutions'. February, 2014.

27. Office of the Parliamentary Budget Officer (Canada). 'Reforms to the Office of the Parliamentary Budget Officer Proposed in Bill C-44'. Ottawa, Canada. May, 2017.

Conclusion

PBOs are part of the wider IFI community. However, unlike fiscal councils, which are generally under the statutory authority of the executive branch (with varying levels of independence), PBOs are focused primarily on providing parliament with independently-verified financial information including: the government's fiscal position (deficit versus surplus); economic growth projections; and costing of proposed government programmes.

In performing such functions, PBOs can level the playing field between the executive and legislative branches and help parliamentarians interpret the accuracy of information provided by the executive branch, particularly in the EBP.

While almost all IFIs interact with parliament, PBOs need to focus on ensuring that the PBO is interacting with parliamentary committees and that their products are being requested and used by parliamentarians. Tracking committee requests as well as conducting occasional surveys of parliamentarians can help PBOs to improve their service to parliamentarians and stakeholders.

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