

OECD Best Practices for Parliaments in Budgeting

Legislatures’ “power of the purse”, the ability to tax and spend public money, is enshrined in constitutions worldwide as a cornerstone of legislative power in democratic countries. Their role across the budget cycle is a fundamentally important national concern, lying at the heart of issues such as transparency, inclusiveness and democratic accountability. Despite different historical, constitutional, and political contexts, common features for parliaments to play an effective role in budgeting have emerged from experiences across OECD countries.

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Introduction

Legislatures' "power of the purse", the ability to tax and spend public money, is enshrined in constitutions worldwide as a cornerstone of legislative power in democratic countries.¹ The result of a long history of hard-won battles between parliaments and monarchs, in modern parlance it has come to be an important check on the executive branch.

The legislature's role across the budget cycle is a fundamentally important national concern, lying at the heart of issues such as transparency, inclusiveness and democratic accountability. The legislature must be able to review the budget and related documents independently, to deliberate on and influence budget policy, to bring forward citizen's concerns, and to hold the government to account. Importantly, the legislature has the potential to promote vertical accountability (to citizens), horizontal accountability (alongside other independent institutions such as the Supreme Audit Institution), and diagonal accountability (through civil society and other non-state actors).

Although conventional wisdom is that a strong legislature can undermine fiscal discipline, the experience of OECD member countries shows this need not be the case and that legislative involvement can bring many benefits. Moreover, good budgeting is not simply about fiscal discipline, it is also about establishing broad priorities, with the consensus building and compromises this may entail, as well as ensuring economy, efficiency, effectiveness and equity in the management of public finances, all areas where legislatures have a significant part to play.

The OECD strongly believes that an effective role for the legislature is a key ingredient in establishing and maintaining fiscal discipline, while providing a necessary link with civil society and citizens, and fostering accountability by the executive (Blöndal, 2003^[1]). The *OECD Recommendation on Budgetary Governance* (OECD, 2015^[2]) states that:

"...parliament has a fundamental role in authorising budget decisions and in holding governments to account."

And that governments should:

"...provide for an inclusive, participative and realistic debate on budget choices, by offering opportunities for the parliament and its committees to engage with the budget process at all key stages of the budget cycle, both ex ante and ex post as appropriate."

OECD Legislatures and Budgeting

While OECD legislatures operate within a range of different legal frameworks, procedures, customs and traditions, all play a critical role in approving the budget and holding governments accountable for how money is spent. Adapting Norton's classic typology of legislatures (Norton, 1990^[3]), the vast majority of OECD legislatures can be termed budget influencing, that is having the authority and capacity to amend or reject the executive's budget proposal. The United States falls at one end of the spectrum with the Congress able essentially to rewrite the budget. OECD legislatures with a Westminster heritage tend to fall on other end, with a strong focus on *ex post* oversight but with limited influence in the approval phase and a near inability to use amendment powers in practice as this is equated with a confidence vote.

Yet even in countries where the legal framework and customs combine to give government primacy to the point of dominance in budgetary matters, legislatures have found ways to reassert their role, for example, demanding improved and more complete budgetary information from government, setting up new oversight committees, and strengthening committee procedures and analytical capacity. One particularly striking trend has been the rise of specialised budget research or scrutiny units within parliaments (in around a third of OECD countries), and independent fiscal institutions (independent parliamentary budget offices or

fiscal councils in around two-thirds of OECD countries) (OECD, 2019^[4]). Similar to supreme audit offices, the latter both provide the legislature with independent analysis while bringing additional transparency and accountability to the budget process in their own right.

As fiscal frameworks have continued to evolve, legislatures in OECD countries have also taken on new tasks such holding a pre-budget debate (over a third), voting on the budget's totals (just under two-thirds) or scrutinising or approving the medium-term budgetary framework (just under two thirds). The importance of long-term analysis has also grown as societies age and the impact of programmes that involve intergenerational transfers expands. Around half of OECD legislatures receive and debate long-term sustainability analysis (OECD, 2019^[4]).

Many OECD legislatures are seeking ways to improve citizen engagement. While most continue to rely on traditional participatory mechanisms such as public hearings (25 countries) (OECD, 2019^[4]), the COVID-19 pandemic has had the effect of rapidly accelerating parliaments' use of digital tools. These successes may lead to more permanent digital venues and other innovations that, if used wisely, could be used facilitate citizen engagement (OECD, 2020^[5]).

A number of factors impact legislative influence in the budget process. These include, but are not limited to, aspects of the fiscal framework; the comprehensiveness of the budget documentation and information; amendment powers; the time available to scrutinise the budget; committee organisation; and analytical capacity. These and others are addressed in the Best Practices. There are also factors outside the scope of the Best Practices, such as the constitutional division of responsibilities, the electoral system, the level of party discipline, and constraints related to the budget itself such as the level of mandatory spending and available fiscal space. Ultimately, constraints on legislative influence may arise more from political considerations than from formal constraints to its powers. Parliaments are not monolithic institutions but a collection of actors with diverse and changing strategies and incentives. The culture of parliament, politics, and informal norms all matter to the success of its budgetary role and its ability to hold government to account.

Origins of the Best Practices

The Best Practices take into account existing OECD best practices, principles and standards. They draw on previous attempts to develop a standards-based approach for empowered and effective legislatures by inter-parliamentary organisations² and others (von Trapp, 2016^[6]), (Fish, 2009^[7]) but with a specific focus on parliaments' budgetary role.

Many of the seminal pieces that helped inform this work are now a decade or more old and fiscal frameworks and budgeting practices within the OECD have continued to evolve (Wehner, 2010^[8]), (Lienert, 2010^[9]), (Anderson, 2009^[10]), (Posner and Park, 2007^[11]), (Schick, 2002^[12]). In addition, during the COVID-19 pandemic, legislative budgetary oversight came under stress on several fronts. As the urgency of policy responses subsides, legislatures have an opportunity to review practices as they restore oversight norms (OECD, 2020^[5]). With this in mind, the Best Practices therefore also seek to bring renewed attention to the role of the legislature in the budget process. They seek to be holistic, providing guidance for legislative engagement across the full budget cycle, and to promote legislatures that are both empowered in the budget process and fiscally responsible.

They take into consideration common and more advanced practices reported by OECD member countries in OECD reviews and reports, as well as in the OECD International Budget Practices and Procedures Database (OECD, 2018^[13]) and the OECD Parliamentary Budgeting Practices Database (OECD, 2018^[14]). As such, while at times ambitious in nature, they are grounded in the experiences of OECD member countries. They have also benefited immensely from the discussions held over the past decade in the OECD Working Party of Parliamentary Budget Officials and Independent Fiscal Institutions (PBO), as well as discussions in the Committee of Senior Budget Officials (SBO) and its associated thematic networks.

Best Practices for Parliaments in Budgeting

Fiscal Responsibility

- 1. The legislature should have the opportunity to review and approve the national fiscal framework or major changes to the framework, in particular the fiscal rules and the medium term-budgetary framework.**
 - The fiscal framework is defined here as the set of rules, procedures and institutions that underpin the budget process.
 - The medium term-budgetary framework should cover at least the next three fiscal years.
 - The establishment of a new fiscal framework, or major changes to the existing framework, should be preceded by a period of informed public engagement with relevant stakeholders.
 - In the context of a supranational fiscal framework, the legislature should also have the opportunity to review budgetary and fiscal documents produced in relation to the supranational framework and these should be integrated into the annual parliamentary budget process.
- 2. The legislature should examine long-term fiscal sustainability analysis in order to debate risks faced by society in an open and informed manner and report on them to the public.**
 - Long-term fiscal sustainability analysis may be provided in a report by the government or by an independent fiscal institution. The OECD Principles of Budgetary Governance call on governments to “Identify, assess and manage prudently longer-term sustainability and other fiscal risks” including by publishing, “[a] report on long-term sustainability of the public finances, regularly enough to make an effective contribution to public and political discussion”.
- 3. The legislature should debate budgetary priorities and trade-offs in a structured manner to inform preparation of the executive’s budget proposal.**
 - This may take the form of a pre-budget debate, which includes discussion of policy goals and resources available to meet them.
 - A realistic debate on budgetary choices takes into account fiscal risks and overall fiscal constraints, including in the medium and longer-term. A pre-budget debate provides an opportunity for the legislature to facilitate dialogue and receive input on the budget priorities of social partners, civil society organisations and individual citizens.
- 4. To demonstrate a commitment to fiscal responsibility, the legislature should review and approve the budget’s totals, providing a strict frame for the subsequent debate on allocative choices and potential amendments in the annual budget proposal.**
 - This may include both the aggregates as well as specific ceilings for major expenditure areas.
 - These should be aligned with the medium-term budgetary framework and its strategy and targets.
 - Enforcing the totals requires adequate information and overseers in both the executive and legislature to maintain discipline in the face of spending pressures. In the legislature, the budget committee is best placed to play this role.

Budget Approval

- 5. The legislature should have the opportunity, time and resources to effectively review, debate, and approve the executive's budget proposal.**
 - The executive should submit its budget proposal to the legislature at least three months prior to the start of the fiscal year.
 - Following the budget speech and debate in the plenary, the budget should be referred to the committees for in-depth scrutiny.
 - Critical oversight tools include written and oral questions or interpellations, committee hearings and commissions of inquiry. The legislature and its committees should have the power to compel persons to testify and to access to any information necessary. There should be mechanisms in place to allow for evidence from public officials, social partners, civil society organisations, and individual citizens as appropriate.
- 6. The budget documentation submitted to the legislature should be comprehensive, encompassing all government revenue and expenditure, to facilitate realistic debate.³**
 - The legislature should decide how the budget and related information should be presented by the government and the required level of detail and transparency to ensure effective scrutiny.
 - Where relevant and practicable, performance information should be presented for expenditure programmes.⁴
 - Budgetary data provided to the legislature should be open and accessible, and published in machine readable and preferably open-source formats to facilitate any analysis.
- 7. The legislature should be empowered to make amendments to the executive's budget proposal.**
 - Amendments should be made within the totals previously approved by the legislature (see Best Practice 4).
 - Proposed amendments should be clear and comprehensive, and allow for timely assessment of their fiscal impact and whether they are in alignment with agreed budgetary constraints.
- 8. The annual budget should be approved prior to the start of the new fiscal year.**
 - The legislature should approve revenue and expenditure plans at a level of detail that is sufficient to ensure effective control and oversight.
 - If the executive's budget proposal is not approved by the legislature prior to the start of the new fiscal year, an interim budget should be adopted for a specified period.
 - Rules regarding a provisional and impartial interim budget should be clearly established in legislation.

Committee Organisation

- 9. The legislature should maintain a Budget Committee⁵ with overall responsibility for budget scrutiny.**
 - The Budget Committee should promote coordination and consistency in legislative budget action and facilitate fiscal discipline, ensuring that the budget's totals and aggregate sectoral allocations approved by the legislature are respected.
 - The Budget Committee should coordinate recommendations from sectoral committees on their areas of specialisation as input to its report on the budget to be put before the plenary.

- Chairing of the Budget or Audit or Public Accounts Committee by an opposition member enhances oversight and reinforces the commitment to operate these committees in a nonpartisan and consensual manner.
- The Budget Committee should be adequately staffed and have the opportunity and resources to consult or employ outside experts and to consult other oversight entities (see Best Practices 13, 14 and 15).

10. Sectoral committees⁶ should review relevant portions of the budget in their portfolios and make recommendations to the Budget Committee.

- Sectoral committees have a particular role to play in reviewing performance budgeting information or spending reviews relevant to their portfolios.

Budget Implementation

11. Any significant in-year changes to approved expenditure and their justifications, whether reallocation of funds, or an increase or a reduction in spending, should be put before the legislature and its relevant committees in the form of a supplementary budget for review and prior approval.

- Thresholds for executive flexibility in spending and the main reasons for adopting supplementary budgets should be clearly specified in legislation.

12. Parliament should have the power to examine any interim financial reports that it deems necessary throughout the year.⁷

- There should be a formal process to review the monthly and mid-year reports.

Audit

13. Parliament should effectively review the Audit reports prepared by the Supreme Audit Institution.

- The Supreme Audit Institution is a core contributor to parliamentary oversight. The Budget Committee, its audit subcommittee, or a separate Audit or Public Accounts committee should be responsible for consultation with the Supreme Audit Institution and overall scrutiny of its reports, including the year-end report.
- Recommendations made by the legislature and its committees on audit reports should be monitored and, where appropriate, integrated into the legislative debate on the subsequent budget.

Analytical Support

14. The legislature should have specialist analytical support in the form of an in-house research or scrutiny unit or an independent parliamentary budget office to provide technical, expert and non-partisan analysis of fiscal policy and the budget.

- The resources allocated to such offices should be commensurate with their mandate and they should have full access to all relevant information in a timely manner, including methodology and assumptions underlying the budget and other fiscal proposals.

15. The capacity of the legislature to engage in the budget process and broader fiscal policy debates is enhanced by the establishment of an independent fiscal institution.

- Whether in the form of an independent parliamentary budget office, fiscal council, or alternative model, independent fiscal institutions provide non-partisan analysis and enhance the transparency of the government's fiscal strategy and budgetary policies. Typical functions of

such bodies include a role in producing or assessing economic or fiscal forecasts, monitoring compliance with fiscal rules, policy costings, long-term fiscal sustainability analysis, and supporting the legislature and its committees with budget analysis.

- Where an independent fiscal institution has been established, mechanisms should be put in place to encourage appropriate accountability to the legislature.
- The *OECD Recommendation of the Council on Principles for Independent Fiscal Institutions* provides a full set of best practices for independent fiscal institutions (OECD, 2014_[15]).

Citizen Participation

16. The legislature and its committees should inform civil society and citizens on the budgetary debate and provide opportunities for them to contribute in a meaningful way.

- The legislature, as a representative body and forum for deliberation, has a particular responsibility to strengthen democratic participation and representation.
- The legislature and its committees should seek to engage a wide range of stakeholders with diverse perspectives, including excluded and vulnerable groups, using traditional oversight tools such as public hearings, modern digital technologies, or by facilitating innovative representative deliberative processes such as citizens' panels, juries or assemblies. These latter tend to be more resource intensive and most effective when addressing complex policy issues.⁸
- In general, plenary and committee meetings should be open to the public or broadcast through audio, television or online channels.

Budget of the Legislature

17. The legislature alone should have the power to determine the budget of the legislature.

- The legislature should have the capacity and resources to carry out its budgetary tasks.
- The budget of the legislature should be prepared independently of the executive and approved by the legislature in line with other constitutional entities.
- The legislature has a special responsibility to demonstrate a commitment to fiscal discipline and to act as transparently as possible in the preparation and execution of its budget. The legislature should maintain clear procedures to be followed, including the use of mechanisms such as a special committee or consultation tools. It should also put in place clear and transparent reporting and audit requirements for its budget.

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Notes

¹ Parliament and legislature are used interchangeably. While the word budget can mean different things in different countries, in this context the budget refers to the annual expenditure and revenue plans submitted to the legislature.

² For example, the Inter-Parliamentary Union (IPU), the Commonwealth Parliamentary Association (CPA) and the Assemblée Parlementaire de la Francophonie (APF).

³ The *OECD Principles of Budgetary Governance* (OECD, 2015_[2]), the *OECD Best Practices for Budget Transparency* (OECD, 2002_[18]), and the *OECD Toolkit for Budget Transparency* (OECD, 2017_[17]) provide guidance on what should be presented in the budget documentation.

⁴ The *OECD Principles of Budgetary Governance* (OECD, 2015_[2]) call on governments to, “Ensure that performance, evaluation and value for money are integral to the budget process [...] helping parliament and citizens to understand not just what is being spent, but what is being bought on behalf of citizens – i.e. what public services are actually being delivered, to what standards of quality and with what levels of efficiency.”

⁵ May also be referred to as the Finance Committee in some countries.

⁶ Also called subject committees.

⁷ The “OECD Best Practices for Budget Transparency” (OECD, 2002_[18]) provide guidance regarding timing and content of interim reports.

⁸ See also (OECD, 2020_[16])



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