

The Role of PBO in Parliament Fiscal Oversight Expectations, Experiences & Challenges

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Outline

- Financial Control and Oversight
- Factors Shaping Role of PBOs
- Expectations, Experiences, Challenges

Parliamentary Systems of Financial Control

- Government (executive power) is responsible for managing revenue of state. It makes financial requirements of government known to Parliament
- Parliament authorizes taxes and supplies (grants of money)

Cardinal Principle - No tax imposed or money spent without consent of Parliament

Two Key Control Gates for Fiscal Oversight

- Financial control exercised at 2 levels

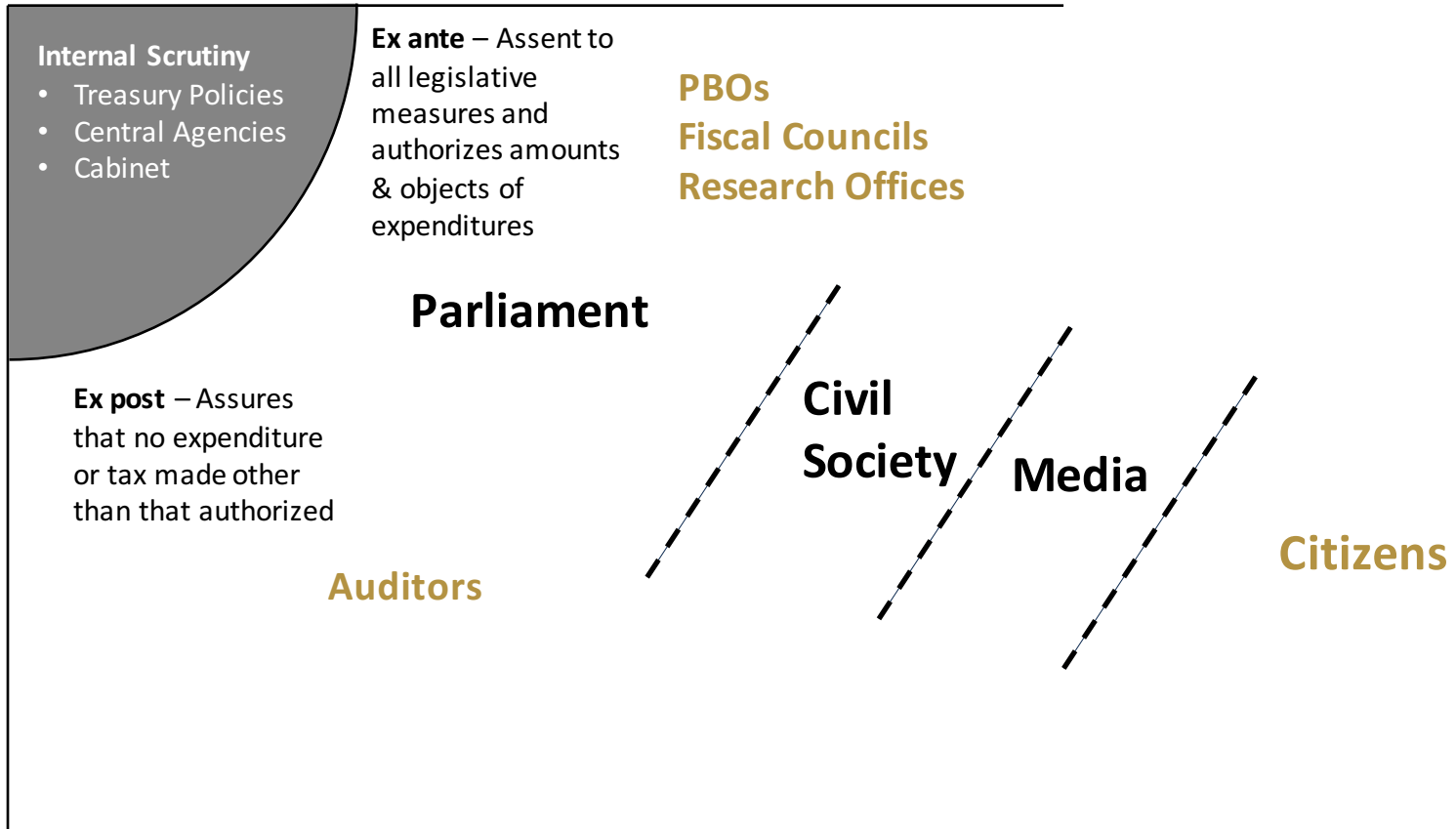
Ex ante – Parliament must assent to all legislative measures and authorizes amounts and objects of expenditures

Ex post – Parliament must assure that no expenditure or tax made other than that authorized

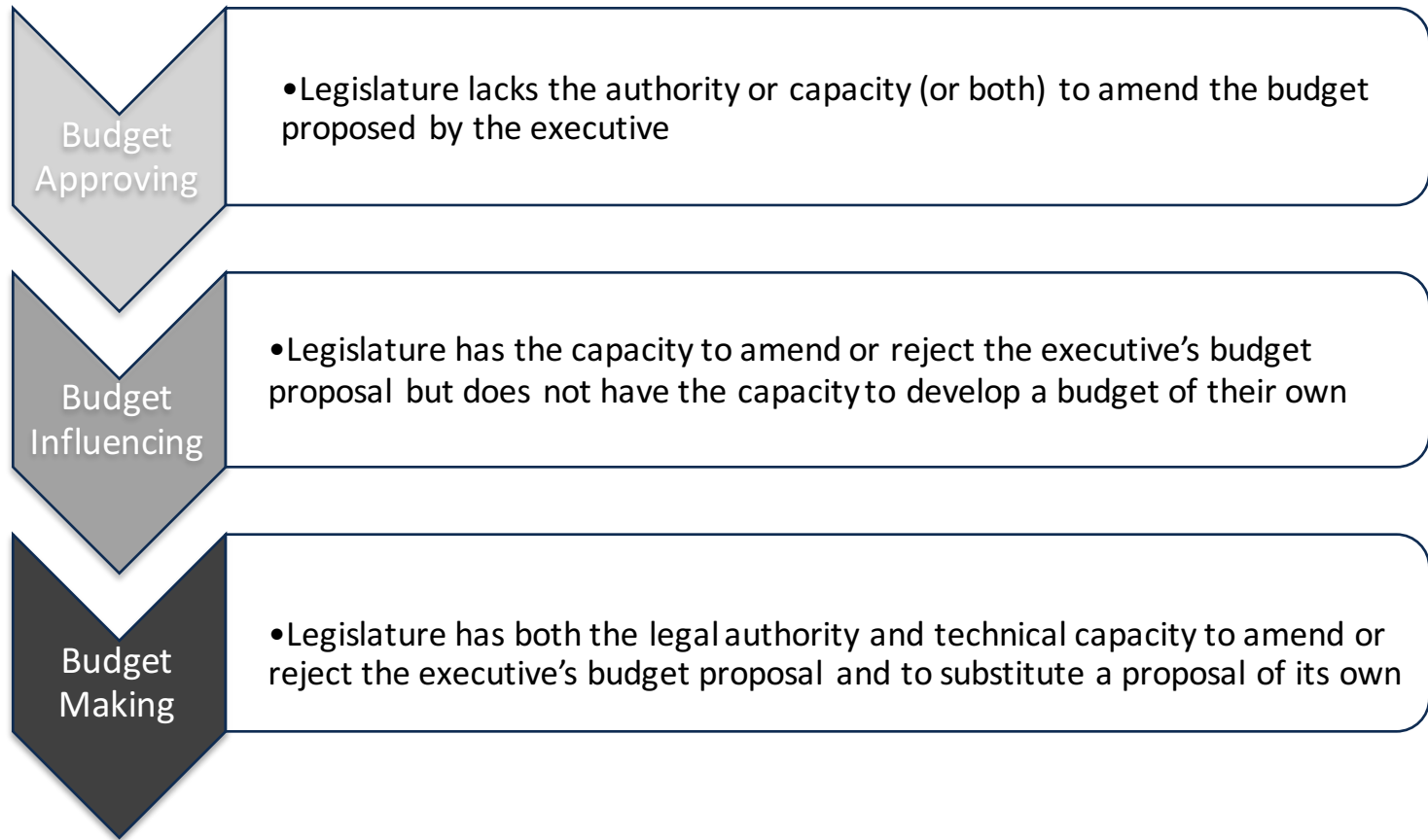
Cardinal Principle - Before authorization, financial measures must be given the fullest possible consideration by Parliament

Fiscal Oversight Schematic

Government

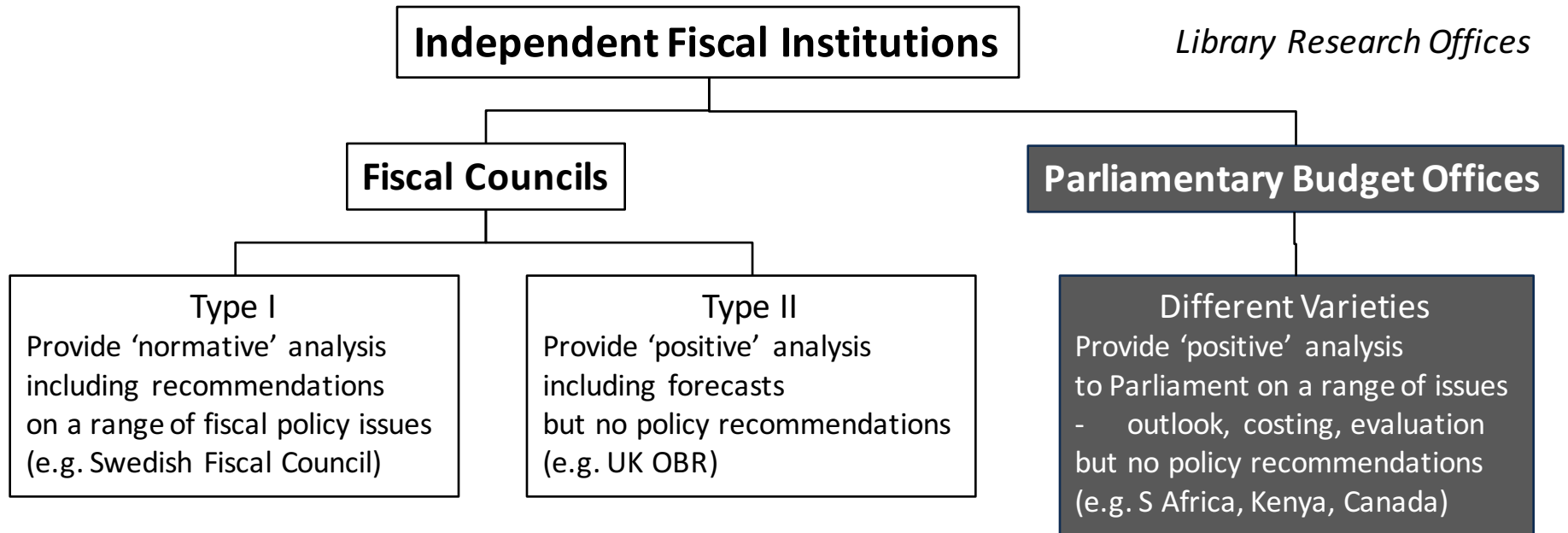


Different Roles of Legislatures in Budget Process



Posner and Park, 2007, "Role of the Legislature in the Budget Process: Recent Trends and Innovations," OECD

Different Types of Fiscal Agencies Supporting Parliamentary Fiscal Oversight



PBOs and Fiscal Oversight

- **Purpose** of PBOs is to support Parliament's role on financial control by helping to ensure informed consent (scrutiny, debate, approval) in provision of financial authorities for the government (executive)
- **Role** of PBOs refers to how these organizations (loosely defined) fit into Parliamentary systems of financial control. This is shaped by many factors including traditions, legislative mandate, performance, amongst others. There are different varieties.
- **Functions** of PBOs are designed to assist legislature in budget preparation and implementation. Core functions include economic and fiscal analysis and projections (planning framework), costing, and scrutiny and evaluation of appropriations and tax bills.

Role of PBOs Shaped by Institutional Factors

OECD Principles For Establishing IFIs

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1. Local Ownership
 2. Independence
 3. Mandate
 4. Resources
 5. Relationship with Legislature
 6. Access to Information
 7. Transparency
 8. Communication
 9. External Evaluation

5. Relationship with the legislature

5.1. Legislatures perform critical accountability functions in country budget processes and the budgetary calendar should allow sufficient time for the IFI to carry out analysis necessary for parliamentary work. Regardless whether an independent fiscal institution is under the statutory authority of the legislative or the executive branch, mechanisms should be put in place to encourage appropriate accountability to the legislature. These may include (but are not limited to): (1) submission of IFI reports to parliament in time to contribute to relevant legislative debate; (2) appearance of IFI leadership or senior staff before the budget committee (or equivalent) to provide responses to parliamentary questions; (3) parliamentary scrutiny of the IFI budget; and (4) a role for parliament's budget committee (or equivalent) in IFI leadership appointments and dismissals.

5.2. The role of the IFI vis-à-vis parliament's budget committee (or equivalent), other committees, and individual members in terms of requests for analysis should be clearly established in legislation. Preferably, the IFI should consider requests from committees and sub-committees rather than individual members or political parties. This is particularly relevant for those IFIs established under the jurisdiction of the legislature.

Role of PBOs shaped by functions

A Range of Possible Tasks

- Objective Macroeconomic Forecasts
- Evaluation of Fiscal Policy Rules & Programs
- Costing of Government Policy Initiatives
- Scrutiny of Departmental Spending Plans
- Analysis of Long run Sustainability

OECD Guidelines for Budgetary Governance

1. Budgets should be managed within clear, credible and predictable limits
2. Budgets should be closely aligned with medium-term strategic priorities
3. The capital budgeting framework should be designed to meet national development needs in a cost-effective/coherent manner
4. Budget documents & data should be open, transparent & accessible
5. Debate on budgetary choices should be inclusive, participative and realistic
6. Budgets should present a comprehensive, accurate and reliable account of finances.
7. Budget execution should be planned, managed & monitored.
8. Performance, evaluation & value for money should be integral to the budget process
9. Sustainability & other fiscal risks should be identified, assessed and managed prudently
10. The integrity and quality of forecasts, fiscal plans and budgetary implementation should be promoted through quality assurance & audit.

Role of PBOs Shaped by Performance

Early Assessments

IMF 2013

Using analysis of forecast errors
& country case studies

Can promote fiscal discipline, if well designed
Operational independence from politics
Enhanced public debate

University of Ottawa 2014

Using performance evaluation
framework on UK OBR

Can promote budget transparency
Can reduce perceptions of bias
High stakeholder confidence in organization

Expectations

- Expectations for new PBOs are in a formative stage – under development.
- The growth of new PBOs reflect desire that these new institutions will strengthen legislative performance *over time*.
- Expectations are dynamic (not static) and situational (country specific) in nature.

Experience

- Change happens at the speed of trust (a quote from Stephen Covey). Impact of PBOs can be negligible, incremental and /or transformative. It can be disruptive – there are perceptions of winners and losers.
- The role PBOs play in fiscal oversight is part of a large system including MPs, public servants, media and civil society. The strengths and weaknesses of this interconnected group will shape the development and effectiveness of the PBO
- Power of the pen. Information and financial analysis matters to Parliamentary performance. Communication matters in fiscal oversight

Challenges

- New PBOs face significant challenges related to:
 - **Asymmetry**: lack of adequate access to information and limited capacity to generate analysis to support financial due diligence. Maintaining high quality of work with limited resources. Challenges related to asymmetry are compounded by a large and complicated mandate
 - **Entrenched culture** (secrecy and control): resistance to promote financial transparency and independent analysis. Institutional change is difficult.

Challenges

- **Independence:** government is apt to claim political bias if it does not like the analysis
- **Accountability:** few PBOs have subjected their work and operations to an external review
- **Low expectations:** destructive perceptions that problems facing budgetary system and institutions are too big to overcome

Thank-you

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