FINANCE COMMITTEE

AGENDA

3rd Meeting, 2003 (Session 1)

Tuesday 28 January 2003

The Committee will meet at 10.30 a.m. in Committee Room 2 to consider the following agenda items:

1. **External Research:** The Committee will consider a report on its commissioned external research into comparative budget setting and financial scrutiny.

2. **Invitation to CIPFA Annual Dinner:** The Committee will consider an invitation to the Convener to attend the CIPFA annual dinner in London.

3. **Cross-Cutting Review (in private):** The Committee will consider a draft report on its cross-cutting expenditure review into Regeneration as delivered through the Voluntary Sector.

David McGill
Clerk to the Committee
The papers for this meeting are:

**Agenda item 1**

Paper by Professor Colin Talbot and Carole Johnson  
Annexes – Case Study Reports

**Agenda item 2**

Paper by the Clerk

**Agenda item 3**

Draft report on cross-cutting expenditure review into Regeneration as delivered through the Voluntary Sector

PRIVATE PAPER
Budget Setting and Financial Scrutiny: Experiences in Devolved/Regional Governments

“Open, Accessible and Accountable to the People of Scotland”

Colin Talbot and Carole Johnson

Public Futures

Commissioned by the Scottish Parliament Research Service on behalf of the Finance Committee
Contents

Executive Summary ........................................................................................................... 4
The Research .................................................................................................................... 4
The Findings and Conclusions ....................................................................................... 5
Introduction and Background ....................................................................................... 9
Analysis of the Case Studies ......................................................................................... 15
Flemish Community, Belgium ....................................................................................... 16
  Budget process and documentation ......................................................................... 16
  Parliamentary-Legislative Involvement and Scrutiny ............................................... 18
  Public Involvement ................................................................................................... 18
  Financial Planning and Control ................................................................................ 19
  Performance ............................................................................................................... 19
Tuscany, Italy .................................................................................................................. 19
  Budget process and documentation ......................................................................... 20
  Parliamentary/Legislative involvement and scrutiny ............................................... 21
  The Regional Council ............................................................................................... 21
  Public Involvement ................................................................................................... 22
  Financial planning and control ................................................................................ 23
  Performance and budgeting ...................................................................................... 24
Navarre, Spain ............................................................................................................... 25
  Budget process and documentation ......................................................................... 25
  Parliamentary/legislative involvement and scrutiny ............................................... 26
  Financial planning and control ................................................................................ 27
  Performance and budgeting ...................................................................................... 27
Georgia and Kansas, United States .............................................................................. 29
  Budget process and documentation ......................................................................... 29
  Parliamentary/legislative involvement and scrutiny ............................................... 30
  Public Involvement ................................................................................................... 31
  Financial planning and control ................................................................................ 31
  Performance and budgeting ...................................................................................... 31
New Zealand ............................................................................................................... 35
  Budget process and documentation ......................................................................... 35
  Parliamentary/legislative involvement and scrutiny ............................................... 36
  Public Involvement ................................................................................................... 36
  Financial planning and control ................................................................................ 36
  Performance and budgeting ...................................................................................... 37
Australian Capital Territory ........................................................................................... 39
  The budget process and documentation .................................................................. 39
  Parliamentary/legislative involvement and scrutiny ............................................... 39
  Public involvement ................................................................................................... 40
  Financial planning and control ................................................................................ 40
  Performance in budgeting ........................................................................................ 40
Lessons from the Cases, and other sources, for Scotland .......................................... 43
  Inherent Difficulties ................................................................................................ 43
  Longer Planning Horizons ....................................................................................... 44
  Legislative Budget Office ......................................................................................... 45
  Institutionalised Budget Consultation ................................................................... 46
Innovative Forms of Budget Consultation........................................46
Linking Budgets to Objectives and Performance..........................47
Rolling Reviews of Programmes, Departments, Performance ....48
Staged Budget Processes.............................................................48
Simplified Budget Documents and Budget Formats....................49
Consensus Revenue (and Need) Estimates ..................................50
References ..................................................................................51
Executive Summary

1. The Scottish Parliament and its committees were established with a commitment to try and create a new and distinctive style of policy and decision-making at government level. As a key part of this commitment, the Scottish Parliament and Scottish Executive established procedures and processes for setting budgets and scrutinising finances which were more ‘open, accessible and accountable’ than the traditional Whitehall model which was used in the Scottish Office prior to devolution.

2. The Financial Issues Advisory Group (FIAG) was set up in February 1998 to recommend the rules and procedures for the handling of financial issues in the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be ‘open, accessible and accountable to the people of Scotland’.

3. The Public Finance and Accountability (Scotland) Act 2000 enshrined these principles in legislation, creating a new system which had built-in machinery for openness and consultation: a three step budget process including publication of a draft budget; a central co-ordinating role for the Finance Committee of the Parliament; consultation with the Parliament’s subject Committees and, through them, the wider public; etc.

4. At the start of the third full year of the budget process, the Finance Committee decided to undertake a review of the financial scrutiny arrangements in place in the Parliament, to examine how effectively the system has operated and to seek ways of better achieving the guiding principles of openness, accessibility and accountability.

The Research

5. As part of this “Financial Scrutiny Review”, the Scottish Parliament Research Service (SPICe) commissioned Professor Colin Talbot and ‘Public Futures’ to carry out research into international examples of interesting and innovative practices for improving the openness, accessibility and accountability of budget and finance processes.

6. This research was carried out between September and December 2002, and this Report is the output from that project.

7. The research consists of two parts:

   - Six case studies were commissioned to examine the operation of budgetary and financial processes in 6 countries and territories with devolved or regional governments.
   - A literature review was undertaken to obtain examples of ‘good practice’ and to complement any lessons emerging from the case studies.
8. The case studies were carried out by researchers in the relevant countries (Australia, Belgium, Italy, New Zealand\textsuperscript{1}, Spain, and the USA), and form the second part of the Report.

9. The specific objectives of the research included:

   a) For each country or territory, to identify and summarise
      
      • the processes of budget setting, financial planning and control, and performance reporting by governments;
      
      • the methods and levels of parliamentary and other scrutiny, particularly in relation to equivalents to the Finance Committee in the Scottish Parliament;
      
      • the extent to which the processes and scrutiny are prescribed or discretionary;
      
      • the level and nature of public involvement in budget scrutiny; and
      
      • the reasons for the main differences with Scotland

   b) The identification of best practice and processes which could be applied in Scotland such as the presentation of budget documentation, parliamentary scrutiny models, financial planning and control and engaging the public.

The Findings and Conclusions

10. The report first situates the Scottish arrangements for budgeting and financial scrutiny in the wider context of such systems in the United Kingdom and internationally.

11. It points out that such systems are subject to a series of dilemmas and tensions about the best way to organise budget setting and parliamentary scrutiny. These are in turn played out in a wide diversity of ways in public administrations at national, sub-national and local levels.

12. The new system introduced by Scotland is markedly different from that traditionally used in Whitehall, which has memorably been described as the “private government of public money”. The Whitehall process is only open and accountable after decisions about allocating public money have been taken, while Parliament’s role is purely one of scrutiny.

13. By contrast, the new Scottish arrangements attempt to be far more open, accessible and accountable both during the process of allocating public funds –budget development and approval – and afterwards. This is closer in spirit, if not necessarily in detail, to systems in place in countries as diverse as Belgium and the USA, to take just two of our case studies. It is also more similar in many ways to UK local government

\textsuperscript{1} New Zealand was included because, although it is a unitary state it is widely seen as being at the forefront of innovative developments in budget and financial consultation and scrutiny processes.
systems than it is to Whitehall and thus marks a radical departure from the practice of the old Scottish Office.

14. The research established clearly that the trend in most of our case studies and in many other jurisdictions is more towards the ‘Scottish model’ than towards the ‘Whitehall model’. All over the globe, governments at every level are trying to make budget and financial systems more open, accessible and accountable. Obviously, this is not a universal trend, nor is it always carried out in practice, but the tide is certainly running in that direction.

15. A number of lessons have been distilled from the case studies and from the literature review which the Finance Committee and the Parliament may wish to consider. These are:

1. **Inherent Difficulties**

16. It is quite clear that the sort of changes to budget and financial processes introduced by the Parliament take considerable time and effort to be fully implemented. In many cases good intentions embedded in legislative and policy changes have led to little or no change in practice and sometimes to adverse and unexpected consequences. The main lesson is that it takes perseverance and continued commitment to make these systems work as intended. There are however, various specific measures which could be taken to help this process and some of these are outlined below.

2. **Longer Planning Horizons**

17. In several of the cases, and elsewhere, there are attempts to develop longer-term planning horizons and move away from ‘annualised’ budget processes. The potential for more strategic thinking, better long-term implementation and reform, and more stability in the provision and development of services, is obvious.

18. Given the context of the total Scottish public finances now being largely set by the 2 year Spending Review announcements in Whitehall, it would seem worthwhile to consider reviewing the planning horizons.

3. **Executives and Legislatures**

19. The Scottish system has been designed to create a new balance between the executive part of Scottish public administration and the legislative part. It is also intended to help create a more consensual and less confrontational, but still clearly political, process for policy and funding decisions.

20. Examples of using a variety of methods to help enable the important behavioural component of such changes are identified. These include joint training sessions for politicians and administrators, “community visioning exercises” and “scenario planning”, all of which involve expert external facilitation and inputs.
4. Legislative Budget Office

21. One important institutional factor identified in the research is that administrations which include a much more active role for the legislature in budget and financial systems, use some form of “Legislative Budget Office” to enhance the capacity of legislators and others to understand, analyse, challenge and contribute effectively to budget and financial discussions. A Scottish Parliament Budget Office should be considered.

5. Institutionalised Budget Consultation

22. Several of our case studies – especially the European ones – include external consultation between the executive and/or legislature and civil society bodies. Sometimes these were national bodies roughly equivalent to the UK’s former National Economic Development Council and sometimes more diverse institutions. Whilst the current Scottish processes create space for possible involvements of this type, they are not formalised as part of the process. The Parliament may wish to consider establishing more formal external consultations about the budget – especially if greater time or opportunity was created by adopting a slightly different cycle relating to the Spending Review cycle.

6. Innovative Forms of Budget Consultation

23. Our research showed numerous examples of innovative ways of involving the public, civic institutions and other stakeholders in wider consultative processes. These range from forms of “direct democracy” such as referenda over specific budget or taxation proposals, to initiatives such as citizens advisory panels, community visioning conferences, issue advisory boards, opinion surveys and panels, consultative ‘road-shows’, internet forums, etc.

24. It might be useful for the Parliament to consider experimenting with some of the latter set of ideas, especially for stage two of the existing budget process, as a way of enabling both the Finance and specialist committees to access wider audiences.

7. Linking Budgets to Objectives and Performance

25. The Finance Committee is already exploring the issue of “outcome based budgeting” and we would recommend this being developed to the fullest extent possible. It might also be useful to incorporate the setting of performance targets and objectives into the consultative processes discussed above.

8. Rolling Reviews of Programmes, Departments, Performance

26. The Parliament may wish to consider whether – based on several international experiences – it might be useful to incorporate some form of ‘rolling review’ of activity areas.
9. Staged Budget Process

27. The staged process adopted by Scotland seems to be inline with many international developments, although it may need review in the light of point (2) above.

10. Simplified Budget Documents

28. There are several examples of attempts to simplify budget documents in order to facilitate accessibility and participation in major decisions. However, the experience seems mixed and there are some inherent problems. Whilst, in general, simplicity and accessibility is desirable, it may be that a delicate balance needs to be maintained which avoids over-simplification and a possible lack of transparency if simplification is pushed too far.

11. Consensus Revenue (and Need) Estimates

29. In line with ideas about longer planning horizons in budget decisions, it may be necessary to have firmer ideas about income as well as expenditure. The report points out that there are several potential areas of uncertainty, despite the Spending Review process, and an innovation from some other jurisdictions, such as external, consensus-based estimating of revenues, might be useful.
Introduction and Background

30. The research was commissioned by the Scottish Parliament’s Research and Information Group to aid the Finance Committee in reviewing the budget and financial scrutiny processes of the Scottish Parliament after the first three years of the budget scrutiny cycle.

31. The background to the review is set out in section 2 of the Research Specification (see Figure 1).

32. The overall aim of the design of the Scottish Parliament's budget and financial scrutiny system has been to produce a process which is “open, accessible and accountable to the people of Scotland.” The Financial Issues and Advisory Group (FIAG) focused its report on the aim of creating “a process which will be less dominated by the Executive...(which) should enable the people of Scotland and their elected representatives to have more of a say in setting priorities for expenditure.” (FIAG Report)

33. The research examines comparative international examples which may aid in furthering this objective and improving the current systems.

Figure 1 Background to the Research Project

34. The Scottish budget process and the Parliament's involvement with it were determined on the basis of the recommendations of the Financial Issues Advisory Group (FIAG). FIAG was set up in February 1998 to recommend the rules and procedures for the handling of financial issues by the Scottish Parliament. The stated objective of FIAG, in line with the general direction of the Consultative Steering Group, was that the budget process of the Scottish Parliament should be ‘open, accessible and accountable to the people of Scotland’.

35. The Public Finance and Accountability (Scotland) Act 2000 enshrined these elements in legislation. The expectation was that subject committees would have an active role in making recommendations on spending priorities, and that the views of the Scottish electorate would be channelled through the subject committees. The Parliament has the opportunity to comment on the Executive’s spending plans at several points during the year prior to the annual budget being agreed. This is the basis of the three-stage process, which begins in late March with the publication by the Executive of the Annual Expenditure Report.

36. The Finance Committee’s role is central to the process. Whereas the relevant subject committees are responsible for commenting on the relationship between expenditure plans and policy priorities within their remits, it is the Finance Committee’s responsibility to co-ordinate the Parliament’s overall response to the Executive’s budget proposals.
37. The Committee can issue guidance to the subject committees to assist them in their scrutiny role. It considers the recommendations of each committee and produces the Parliament’s response to the Executive’s plans at Stage 1 (June) and Stage 2 (December). At Stage 2, it also has the power to put forward an alternative budget, as long as this remains within the overall budget limit set by the Executive.

38. The FIAG recommendations were innovative and progressive, but after three years in operation, the Finance Committee wishes to examine ways in which the process could be further improved and streamlined. On this basis, the Committee has agreed to undertake a review of the financial scrutiny arrangements in place in the Scottish Parliament. It is also taking the opportunity to examine methods of financial planning. The objectives include consideration of whether there are lessons to be learned from other countries and territories.

39. Before examining the processes and procedures in place in other bodies, it is useful to situate the existing Scottish system in relation to other public administrations and set out what some of the underlying issues are.

40. The aims of increasing openness, accessibility and accountability are hardly new themes in public administration generally, but they have received increasing attention and urgency in recent years. This is specifically true of the main traditional focus of governments: “getting and spending”.

41. The impetus for increased concentration on open, accessible and accountable budget and finance systems in particular has been driven by multiple concerns, including:

- Taxpayers’ perceived demands for lower taxes;
- A perceived crisis of legitimacy of representative institutions as symbolised by falling electoral participation;
- Popular concerns about where and how public money is being spent; and
- Increasing criticism of public services provision.

42. These concerns have varied from country to country and region to region. In the developing and transitional world, the focus has been on more open and participatory budget processes as a way of overcoming corruption and establishing better democratic norms and traditions, as well as in supplementing ‘structural adjustment’ (i.e. down-sizing the public sector). In the developed, democratic world, the emphasis has been more on re-establishing public trust in government and making better decisions about allocation of scarce resources, often in situations of budget stand-still or even shrinkage.

43. The notions of increased openness, accessibility and accountability - which usually also implies increased participation in some form – are worth ‘unpacking’ as they are not quite as unproblematic as they appear at first glance.
44. The Scottish Parliament’s own processes are described as “innovative and progressive” (Figure 1) and from the point of view of UK central government procedures, which dominated Scottish Office processes prior to devolution, this is indeed the case.

45. The UK central government system has been famously described as “the private government of public money” (Heclo and Wildavsky 1981). Decision making about the budget is solely in the hands of the Executive and is a highly secretive process, with only the final results being revealed to Parliament and thence, by tradition, rubber-stamped. Parliament plays no active role in the preparation of budgets and only a limited role in scrutinising their implementation (through the House of Commons Public Accounts Committee and the Comptroller and Auditor General). Recent changes, such as the introduction of 2-yearly ‘Spending Reviews’ have made little difference to the traditional secrecy surrounding budget processes (Talbot 2002e; 2002f).

46. There is, however, another and quite different tradition in the UK – the budget processes of local government. Whilst the Scottish Parliament processes are ‘innovative’ from a central government perspective, with their formal and active engagement of the legislature in the budget formulation process, they do not appear so radical from a local government perspective. In Town Halls in the UK, there has traditionally been much greater ‘Member’ level involvement and there was (until recently) no clear distinction between the executive and representative bodies. Budget making processes were, as a consequence, almost impossible to keep secret and were far more open than in Whitehall. How effectively the public at large, and indeed even members, were engaged with the budget process is another question, but the processes were still qualitatively different from Whitehall and much closer to the new Scottish (and Welsh) arrangements.

47. Just as there is a stark contrast between Whitehall and local government in budget processes, likewise there are similar major differences around the world within and between state or federal, regional and local levels. In some jurisdictions, the executive both proposes and disposes, i.e. proposes, the budget, and takes the decision on implementing it, and there is relatively little scrutiny by the legislature or anyone else. At the other extreme there are places where direct forms of democracy, including examples of plebiscites, initiatives, consultative processes and referenda, have had significant impacts on budgetary decisions.

48. Alongside the ‘Westminster’ model (UK central government, New Zealand and many other commonwealth countries) there sits the USA’s model of ‘separation of powers’ in which the executive and legislature play distinct roles in the budget process. The variations are enormous, but one identifiable trend is towards trying to increase the aforementioned forms of ‘direct’ citizen engagement.

49. In federal (or quasi-federal) systems, budgetary processes are often complicated by the fact that a proportion of local spending is determined by national allocations – sometimes more or less ‘ring-fenced’ for particular services and even tied to local levels of spending. There are also wide variations in the contribution of locally determined taxation to overall local spending.
50. There are also substantial variations in the format of budgetary information and systems. Some have used cash-accounting, with various ways of handling inflation, net finance and other issues whilst others have recently introduced ‘resource’ or ‘accruals’ accounting systems. Some use very detailed ‘line-item’ budgets and others broad brush aggregate numbers. Some use budgets tied to organisations, or functions or policy areas or mixtures of all three.

51. Most recently, many jurisdictions have moved to producing varieties of performance information about what is achieved for the public money spent and these cover a wide variety of input, process, output, outcome and evaluative measures. In some cases performance information is clearly linked to budgetary information but in many it is not, or at any rate not easily.

52. The conclusion is that there are many and various ways in which budget processes are managed, in the degree of Parliamentary or representative involvement, in the degree of public participation, in the format of budgetary information and systems and in how spending and performance is scrutinised.

53. Within these variations there are some obvious policy choices or dilemmas such as:

- What balance to strike between the executive and legislative or representative assemblies in terms of who proposes and authorises budgets?

- What balance to strike between representative or elected democratic institutions (parliaments and executives) on the one hand and forms of direct democracy (plebiscites, referenda, consultations, etc) on the other?

- What form should budget systems take – cash-accounting (which is easier to understand) or accruals accounting (which presents a more complex but arguably ‘truer’ picture of resources utilised)?

- Who should scrutinise the implementation of budgets and what should the balance be between them – the executive; the legislature or representatives; independent auditors; etc?

- Is it possible to move away from decisions about just spending, to decisions about and scrutiny of what is achieved? How can authoritative, acceptable and accessible performance information be produced and utilised effectively?

54. These are just some of the questions exercising politicians, administrators, managers, professionals and the public around the world.

55. Moreover, these questions and dilemmas focus on the overt, formal and institutionalised processes of budgets. It is well known that many real-world budget processes are driven as much, if not sometimes more, by forces other than formal processes and legitimate actors. Interest groups, lobbying, and policy-networks; professional and ‘street-level’ bureaucratic practice; social, economic and
environmental changes: all these can have an impact on how these formal systems work in practice, skewing budgets and priorities outside formal channels.

**Aims, Objectives and Methodology of the Research**

56. The aims, objectives and methodology for the research were set out (in part) in the specification (see Figure 2).

57. In the proposal submitted, and accepted, from the researchers, the only significant changes were:

- To add a ‘performance’ dimension to the issues examined
- To include a more general review of existing literature and practice on participation in budgetary and financial scrutiny processes

58. The countries and regions selected for study were (the names of the researchers commissioned to write the case studies for us are in brackets):

**Australia/ACT** – the Australian Capital Territory (Canberra and its surroundings) is a sub-national unit akin to a state in a federal system (Professor John Wanna and Dr. Christine Ryan)

**Belgium/Flemish Community** – the Flemish Community covers about 40% of the Belgium territory (Prof. Geert Bouckaert and Dr Wouter van Reeth)

**Italy/Tuscany** (Prof. Riccardo Mussari)

**New Zealand** – although NZ is not a federal/regionalised state it is small enough, and the experiments with budgetary processes sufficiently interesting, to serve as a useful comparator with Scotland. (Professor June Pallott and Dr Sue Newberry.)

**Spain/Navarre and Catalonia** (Dr Francesc Pujol and Dr. Juan Carlos Molero)

**United States/Georgia and Kansas** (Dr Kurt Thurmaier and Dr Katherine Willoughby)

59. This group of researchers was recruited via an email appeal over the ‘Public Admin and Management’ network (which is organised by Colin Talbot) – although most of the researchers were previously known to us anyway. They are all prominent in their field and well respected in their own countries.
Figure 2 Aims and Objectives

Project Aims

60. Identify and compare budget processes and systems of financial planning, control and scrutiny in other devolved/regional territories. Provide a report on the findings and conclusions.

Objectives

61. Identify a sample of countries and territories (approximately 6) appropriate for comparison with Scotland in relation to budget process and systems of financial planning, control and scrutiny.

62. For each country or territory, identify and summarise:

- the processes of budget setting, financial planning and control by governments;
- the methods and levels of Parliamentary and other scrutiny, particularly in relation to equivalents of the Finance Committee in the Scottish Parliament;
- the extent to which the processes and scrutiny are prescribed or discretionary;
- the level and nature of public involvement in budget scrutiny;
- the reasons for main differences with Scotland.

63. Identify practice and processes that could be applied in Scotland e.g. budget documentation, Parliamentary scrutiny, financial planning and control, engaging the public.

64. Produce a report on the findings and produce recommendations of practical use to the Scottish Parliament and Scottish Executive.

65. In addition to the case studies we conducted a fairly comprehensive scan of the literature on budget reform, focussing primarily on the political and participation processes rather than on technical budget issues.

66. The report has been prepared in two parts. The main report contains our analysis of the Case Studies and the literature review, whilst the actual case studies from Australia, Belgium, Italy, New Zealand, Spain and the United States are reported in the Annex part 2?

67. In the main body of the report we have firstly analysed all the case studies and then combined this analysis with our reading of the wider literature to produce a set of ideas and proposals which may be of use to the Scottish Parliament in reviewing its own arrangements.
Analysis of the Case Studies

68. We have analysed each of the case studies to focus on a set of issues:

• Budget processes and documentation
• Parliamentary-legislative involvement and scrutiny
• Public involvement
• Financial planning and control
• Performance
Flemish Community, Belgium

69. The Flemish Community covers 40% of Belgian Territory and has a range of exclusive powers devolved to it. It has little control over tax policy and 90% of its revenue is supplied by the Federal Government. Since 1989, the community has been able to develop its own administrative budget control procedure but the budget and accounting system has been managed according to the legislation of the Belgian government. This is currently undergoing change as the Flemish Government is developing its own format and procedure for the budget and accounting system. However, this report focuses on what is happening now under the present arrangements. Three features are important in this case:

- The Flemish budget process has been overwhelmingly influenced by the Belgian and Maastricht policies intended to control expenditure and prepare Belgium for entry into the Euro.
- Performance pilots have been attempted but have been largely unsuccessful, as they have been limited by the pressure to cut costs.
- There exist new pressures to design procedures which will restore political control vis-à-vis managerial control.

Budget process and documentation

70. The Flemish community has had, since 1989, the authority to devise its own administrative budget control procedure. The same legislation also allowed for the possibility of organising its own budget and accounting system with the proviso that it operates within the general boundaries set by federal government. The Flemish Government is now developing its own systems, having previously used the format and procedure laid out by the Federal Government.

71. The existing budget process coincides with the calendar year. Each spring, the formulation of the budget begins with the dissemination of the basis for the next budget, which includes the economic assumptions and policy intentions, to the Ministry of the Flemish Community and to the Flemish Public Agencies. Budget proposals are sent to the Minister of Finance and Budget, and to the Inspector of Finance who offers advice. The proposals are discussed further in two stages: in the first, which occurs from late June/early July, negotiations focus on the technical status of the proposal between the Ministry of Budget and Finance and the various administrations (technical bilaterals). This is attended by a representative of the Ministry and by the Inspector of Finance attached to that minister. The second stage consists of political negotiations, or bilaterals, between the Minister of Finance and Budget, and other Ministers within the Flemish Government, and deals specifically with unresolved issues. This occurs in late July. Lobbying and decision-making usually continue throughout August and early September, when the new parliamentary year begins. The Budget Decree is presented during September.

72. Whilst the Flemish region has the authority to set and manage the budget, the region exists within limited fiscal autonomy and under certain solidarity mechanisms. Thus,
the actual budget is influenced heavily by the federal level and in turn by the Maastricht agenda.

73. The Inspectorate of Finance has autonomous inspectors who counsel budget makers. They offer advice on proposals that exceed a certain amount and in general take part in budget reviews during the development period. They have the power to investigate and perform audits on the legality, economy, efficiency and effectiveness of budget programs. Whereas the inspectorate was controlled at the federal level it has now evolved into an inter-federal corps being controlled jointly by the federal level, communities and regions.

74. The budget presented to parliament contains four documents:

- The Budget Memorandum
- The Ways and Means Budget
- The General Expenditure Budget
- The Administrative Budget

75. The presentation of data has developed through a series of changes. In 1989, the General Expenditure Budget was simplified to remove line items. These were then placed into an ‘Administrative Budget’ annex. The Memorandum, which provides a narrative and details of each budget program, is also included. However, prior to 1997 only the Ways and Means Budget and the limited General Expenditure Budget were presented to parliament as a legislative proposal. Therefore the Flemish Parliament now receives increased information regarding the budget.

76. The Flemish system has been undergoing transition, therefore there is no information regarding the impact of the splitting of the administrative budget from the General Expenditure Budget at this level. However, at the Federal level it has been accompanied by a reduction in the number of items listed, from 2500 to 550. This can be interpreted positively as the presentation of clearer, simpler data, or negatively as a lack of detailed information on which to base decisions.

77. In terms of presentation, there is a relatively complicated set of four different types of budget documents (departments, organisational divisions, programmes and budget accounts), some of which adopt an organisational related format and some a programmes related format.

78. In the Memorandum, the Government, in principle, had to provide information to the Flemish Parliament on the objectives of each program, the cost of activities and the expected results. Some information is provided but it is limited. There is no systematic indication of policy objectives or measures relating to outcomes, outputs, processes or program costs.

79. It has been noted that tracing funding flows is difficult because of the lack of information. This often occurs under the organisation division where resources are allocated to resource programs.
Parliamentary-Legislative Involvement and Scrutiny

80. Budget policy is the remit of the Committee of Finance and Budget at a general level and, at an individual policy level, the administrative committees. The role of the Flemish Parliament is in formally approving the budget and closing accounts. Members can submit amendments after the committee debates, reports are presented to the plenary session during December. In principle, the budget has to be approved before the new budget cycle.

81. Changes, made in 1989, have reduced the power of the Flemish and Federal Parliaments in the budget process. They can no longer propose amendments in the Administrative budget. Parliament is required to pass a motion stating that the Administrative Budget reflects the general objectives of the Programs in the General Expenditure Budget. In principle, Parliament can use this procedure to persuade a Minister to adjust details in the budget. In practice this tends not to happen due to the Government's majority in Parliament.

82. The government can transfer money between accounts within the budget by executive decision, but above certain thresholds the Audit Court and the Parliament have to be informed and Parliament has to give its consent through a new motion.

83. Other 'professionally based' bodies involved in scrutiny work include the High Council for Finance, which consists of experts in economics and public finance who recommend macro budgetary targets. In addition, the Audit Court controls the budget for both federal and community and regional parliaments. They control forthcoming expenditures in terms of their legality. They also check accounts of revenues spent by departments. They are not allowed to comment on the political motivation for budget expenditures but have been able to investigate and comment on efficiency and effectiveness since 1998. The Minister-President confirms the budget in the Flemish Community.

84. Overall, it is the Executive rather than the Parliament which dominates the budget process. Political parties can have influence on Ministers through their party presidents. Individual politicians or their committees have little impact except when scandals occur and they are allowed a more substantive impact. Executive control has also increased since 1989 since the format for the presentation of the budget was simplified.

Public Involvement

85. Traditionally in Belgium, various interests such as the Social and Economic Council for Flanders have had a strong voice through having a formal consultation status during the budget process. This council represents interests from the government, labour unions and employer organisations. Other interests include professions and health insurance providers. Political parties have also had influence through their involvement with individual groups. The adoption of the Meesternorm – a new macro budget target system in the mid 1990s - has led to the closure of debates on a larger part of the budget. However, alongside this there has been some increase in the transparency of the budget.
86. The new system proposed has the aim to reduce the level of influence of these traditional consultative bodies in the quest to restore the primacy of politics and politicians in budgetary processes as against a perception of administrative dominance.

Financial Planning and Control

87. In the past, budgets and financial planning have operated on an annual basis. New legislation (proposed to be passed in 2003) on Better Government Governance Reform intends to, among other things, abolish the detailed ex ante controls by the Audit Court and introduce alternative budget control mechanisms in terms of multi-annual plans and budgets. This is still under discussion. In addition, policy reports are to be submitted after the end of the budget year so they can be included in the budget control and formulation procedure of the following years.

88. In 1996/97 a modified accrual accounting system was introduced for the Agencies, and in 2001 the Ministry for the Flemish Community could also use accruals accounting. Neither reform has affected the budget as this remains on a cash and commitment basis. Again this is an area that new legislation is addressing.

89. Although in principle this new legislation is biased towards restoring the primacy of politics, there are also provisions to increase the budgetary autonomy of the Agency heads. This is designed to address the problems of gaps in control over finances produced by the complicated matrix organisational structure between the ministry and the agencies. The matrix structure will be replaced by 13 ministries which will have core departments focusing on policy preparation and policy evaluation and new more decentralised agencies will concentrate on implementation of more homogenous tasks.

Performance

90. New budget and accounting legislation intends to include more performance and cost data. Until now the focus for budgeting has been on macro level savings in order to be able to enter the euro zone. Previously, since the 1990s, attempts have been made to collect more detailed performance information for the budget process. However this appears to have been largely unsuccessful. Progress has been limited by the retention of the basic budget legislation by the federal government, and the fiscal and monetary policy of the federal and European levels. Experiments were also carried out to include elements of performance in the technical bilateral. These were based on zero based budgets conducted by the Inspectors of Finance and on performance based budgets compiled by some pilot agencies. In the context of the aim to cut expenditure this was carried out as part of a savings exercise. The process was also hindered by the low validity of the cost and performance data and by the lack of availability of agreed performance measures.

Tuscany, Italy

91. The region of Tuscany is an example of devolved regional government. The principle of subsidiarity is used to determine which powers are devolved to the regions. The region
has exclusive competence over areas of policy such as tourism and industry, and shares power with the state over aspects such as international relations, foreign trade and education. The state retains areas such as national defence and the law as would be appropriate. Therefore the region’s sole power extends to less areas than the Scottish equivalent but it nevertheless enjoys a substantial degree of autonomy. The regions have autonomy over income and expenditure, with additional funding coming from the centre. Similar to other cases, the budgetary procedure has undergone changes over the past decade. The important changes for the regions are the linking of budget allocations with organisational structure in order to allocate resources and performance objectives to the centres of responsibility (decentralisation), the simplification of the budget structure and the reduced number of elements to be approved by the elected assembly, who were at one time involved in drawing up the budget and making decisions on how to spend resources. Key characteristics of this case are:

- A reduction in Parliamentary scrutiny of the budget and an increase in Executive power supported by the extension of administrative law.
- An emphasis upon wider involvement of organised ‘stakeholders’ such as trade unions, local government and employers.
- A strong linkage between Regional/economic planning and the budget making process.
- Clear attempts to increase the role of performance in budgeting processes

Budget process and documentation

92. The federal law lays down a general regulatory framework within which the regions must operate, but the regions have some freedom to set their own accounting laws. In Tuscany, the accounting law is brief and sets out general principles, rather than detailed technical rules. This has led to greater power for the Executive vis-à-vis the legislators. The budget is prepared by the Tuscany Regional Executive Board and presented to the Tuscany Regional Council (equivalent to the Scottish Parliament) for their approval each year by the 31st of October. The First Committee in the Council also has responsibility for budget matters, including planning and auditing. The Inspection Committee advises on the budget while the Audit Committee supervises the management of assets and the budget, and examines the statements of accounts. After these Committee deliberations, the Council approves the budget by 31st December. The Regional Executive Board then presents the balanced budget by 30th April. Each year a statement of accounts is also presented, which is approved by 30th June.

93. The preparation of the budget is inherently tied to the preparation of the Economic and Financial Planning Document. This document is produced before the budget as it guides the latter’s preparation. The preparation of the budget is the preserve of the Executive Board. The Council can change the overall level of the budget but cannot change the individual allocations within it. At the regional level there are two budget documents, one political and one administrative. The former is the whole budget, including income and expenditure, and the latter is further broken down into the individual items of the budget. This has effectively separated the political direction and
the administrative management (how much money there is to spend and more exactly how it will be spent). The Regional Council is involved in approving the whole budget but has no control over the allocation of resources beyond that given to areas of specific competences.

94. Another document provided to the Council relates to the outcomes of the previous budget year and consists of the Management Report which details the extent to which objectives and performance targets have been met.

Parliamentary/Legislative involvement and scrutiny

94. The political budget is approved by a Regional Council and the administrative budget is approved by the Regional Executive Board. Such a division allows the management of resources according to the managerial objectives set. In addition, it is now possible, through the newly created regional law, for accounting and budgeting norms to be changed without legislative approval. Despite this system being increasingly controlled by the Executive there are nevertheless several points at which influence from elected members can occur:

- Through membership of the Regional Council
- Through the Committees of the Council
- Through the Council of Local Autonomies (representatives from local government)

The Regional Council

95. The Council is the representative and deliberative body made up of 50 directly elected members and its role is to express the political and administrative strategy for the region. The council members have primary rights of discussion within the Council, while executives and occasionally outsiders can also speak under certain circumstances. Therefore the involvement of non-members usually occurs before discussions within the Council. Other interested parties can put their opinions forward through council members. There are strict limits over the time allowed and the number of times a member can speak, thus limiting the overall burden of budgeting exercises.

96. It is noted in the report that the changes in the regional processes have meant that ‘the new law has strengthened the role of the Regional Executive Board compared to that of the Council’. Previously, the regional council had a large degree of control over budget setting (Mussari 2002:15). Only three laws for change in the budget have been approved whilst other changes have occurred through administrative acts. The report suggests that there is more debate in the administrative meetings than in the council meetings: this, it is proposed, rests on the share of decision-making power they have. It does appear that the budgeting processes are highly bureaucratic. However, at the same time, changes have been made to ensure ‘better’ management and performance within service provision and a commitment, in principle at least, towards greater stakeholder involvement.
Committees

97. Any amendments tabled concerning the budget must then go to the subject committees for advice. It is the First Committee within the Regional Council which is charged with budget scrutiny. Other subject specific committees also see and comment on the budget documentation. The Committees can be quite open processes inviting interested parties in from outside and can call the executive members to attend or answer queries. After deliberations, a majority and, if necessary, a minority rapporteur can be sent to the Council. Committees can inspect activities which can result in changes. They can also consult with citizens, publicise their activities, and are required to report through official statements on their activities and decisions.

98. The Inspection Committee gives advice on the budget documents within 30 days of receipt and before the advice of the First and any other subject committees. This committee also supervises the accomplishment of the regional plans. In this way it has a rounded view of the whole process. The Audit Committee follows the First Committee’s reports on the statement of accounts. This is then voted upon by the Council. Voting takes place on each item in the budget through a system of roll calling.

The Council of Local Autonomies

99. Local government participation has been strengthened within the new arrangements. Local Government is organised into the Council of Local Autonomies, which is a unitary representative body of Local Government in Tuscany. This organisation has its offices at the Regional Council. In principle there should be permanent consultation between the two tiers of government and their establishment within the Council would certainly support this aim. Their role is to comment on budget and planning proposals and they have to be consulted about any changes which are made. They have a similar function to the Council’s Committees. Local Government is also involved with consultation at a more public level as it is also part of the Permanent Table of Agreement (see below).

Public Involvement

100. In line with European corporatist traditions, budget proposals are open to influence by various groups. These are:

- The Permanent Table of Agreement (made up of social and economic forces); and
- Popular initiatives from lower tiers or individuals

101. At the regional level, economic planning and the creation of the budget are strictly connected processes. The Statute of Tuscany also states that the process of economic planning must be participatory. This therefore lays the basis for participation in budget matters. A standing committee exists called the Permanent Table of Agreements. Those involved include local government, trade unions and, more recently, other interested parties including: public authorities, institutions, private bodies and citizens. In particular, this allows for local government and economic and social organisations to take part in consultations and the forging of ‘agreements’; specific planning documents outlining specific areas of policy which need attention. The Table of Agreements,
which, based on historical evidence, sits twice a month is responsible for such planning. Agreement procedures are designed to foster harmony and consensus among the different groups over planning issues. Essentially, this is similar to the community planning (strategy) process in the UK. This intends to gather opinions and proposals during planning processes. The consultation process is formalised and occurs in March/April each year for the Economic and Financial Planning Document and occurs again in September/October after the budget has been presented to the Council.

102. The ‘Table of Agreement’, a document containing such final agreements made by planning actors, forms part of the procedures which bind the Regional Executive Board when making the budget. These set, or contribute to, objective setting around which the budget can then be designed to attempt to deliver through service provision. Local government’s role is said to be more intense than that of other actors because of the existence of the Council of Local Autonomies. The Regional Executive Board is active in these participatory processes, as it is assigned as its duty in law.

103. Less formal forms of public involvement are also allowed but it is much less clear how or if these processes have influenced budgetary decisions. The main ways are referenda and initiatives. Referenda can only be used to repeal regional laws and administrative acts and cannot be used for taxation or budget laws. As such, they cannot directly influence budget decisions. However, given the strong links between regional planning and budget making, the use of referenda could in principle affect planning decisions which may lead to budgetary influence. In the case of initiatives, these differ in terms of being excluded for administrative law but not for regional law; therefore it is possible to use these instruments. However, as budget making is the exclusive province of the Regional Executive Board (which is under administrative law), initiatives cannot essentially have any impact either.

104. The Regional Council is required to inform citizens about the Region’s activities as a premise for effective democratic participation. Publications include a fortnightly review of what is happening in the region, published in hard and electronic format. All documents have to be made available to the widest number of people. The Website is a rich source of information about the region’s activities including items such as the minutes of meetings. These are seen as very full sources of information available to citizens.

Financial planning and control

105. The new regional accounting law tends to reinforce the role of the executive. It is about 1/3 of the length of the previous law and is a set of principles rather than a specific set of legal requirements. As such it leaves the definition of technical aspects to the executive board when producing the Regulations of Accounting. This makes it possible for accounting and budgeting norms to be modified without Council approval.

106. The law strictly defines the necessity to assure the coherence and management of the budget and regional planning. Documents have to show the financial projections on each particular item. The Regional Development Programme directs the Region’s
activity on a 5 year basis, with the Economic and Financial Planning document being produced yearly with a 3 to 5 year projection. This planning document, the previous year's accounts and management report on performance, are presented together to form the basis for decisions on the following year's plans for expenditure. These are approved by the Council, although there is no specific procedure for this. However, because of the close alignment between the budget and plan, each year it is approved a few days after the budget document.

107. There are elements of multi-year financial planning within the Tuscan case; these are required in their planning forecasts. Whilst the multi-annual budget is planned, this does not mean that there is spending flexibility across budget years. Nor does it mean that expenditure can be committed in advance. The multi-annual budget is attached for information purposes to the annual budget.

108. Monitoring and evaluation of planning takes place during development of the new year's plan. Its aim is to evaluate efficiency and effectiveness according to the performance plan defined in the planning document.

Performance and budgeting

109. Many of the outcomes which tend to favour the executive over the legislature have emerged from the new reforms. In accounting, these reforms reflect the reform of public management, the fundamental point of which has been to allocate responsibility to managers for the use of resources, whilst closely linking performance measures with these allocations. Much of the resource allocation is in fact used at levels lower than the region, following the principles of subsidiarity. Resources are determined on the basis of the Management Plans of the centres of responsibility. The plans show the objectives set and results achieved in qualitative and quantitative terms. This task of performance monitoring is undertaken by the Regional Executive Board rather than the Council.

110. The board is most intensively involved in planning, budgeting and auditing. It approves the most detailed version of the budget and is responsible for assigning objectives and resources to managers. The new law is designed to make the system more flexible. The simplification of the budget's structure and a reduction of the number of elements to be approved by the elected assembly, has led to the two budgets and a separation of political direction and administrative management. Therefore, it is only the Executive which has control over reallocations within the budget. Thus, the legislature is effectively sidelined within this system since it does not have the power to make decisions regarding for example the performance measures and outcomes as a matter of course.

111. Additionally, the new reforms have intended to delegate more authority to service managers, by correlating the use of resources with the reaching of performance objectives.
Navarre, Spain

112. The case of Navarre in Spain is one of devolved power within a ‘co-operative federalism’ in which the Navarre community can develop its own governments and parliaments. Navarre, having been autonomous since 1841, is responsible almost entirely for revenue raising and expenditure. The Government thus has the power to prepare and approve its own budget. The key characteristics of this case are:

113. Parliamentary scrutiny is seen as high, but comparatively within the cases presented here, it is reasonably well developed. It has the power to prevent, for example, the introduction of new performance oriented plans within the budgeting framework. Its role is supported by the availability of a range of documents.

114. Overall the system appears to be highly consensual, in terms of gaining agreements from the many minority parties in Parliament and in the inclusion of external groups in the budget process. Public participation is formally carried out through standing Councils.

115. Financial planning is multi-annual and performance is increasingly being seen as part of the budgeting process.

Budget process and documentation

116. The budget consists of three stages. Stage one is the elaboration of the budget and is carried out by the Government without any participation from the Parliament at this stage. The process begins in June, when the Economy and Finance Department elaborates the income estimates and receives the spending plans from each department. In September the government approves the guidelines for the budget prepared by the Ministry of the Economy and Finance Department. Spending plans by departments are revised in the light of the guidelines. In October the various political parties in the Parliament form a “policy of agreements” allowing the budget to be presented with political support in a situation of a minority Government in power.

117. In stage two, the budget is presented to Parliament by the 1st of November. Discussion within Parliament follows and sometimes this involves the development of further agreements between the parties. Amendments can be proposed, are debated by the Finance Committee and voted upon within the Parliament. Amendments are then incorporated into the budget.

118. In stage three, the budget is approved by Parliamentary vote by the end of December. Again, it is often necessary to gain more agreements.

119. A further key player within the budgeting process is the Audit body which has a broad ‘scrutiny’ role, employing under its auspices, lawyers, auditors and financial advisors. Its work goes beyond basic auditing, by making suggestions regarding ways to improve spending.
120. In terms of the documentation provided to parliamentarians, this appears to be quite extensive and based on the principles of the need for clarity and transparency from the more highly skilled Executive. Beyond the basic presentation of the main budget document, other documents include: a report which outlines the economic and financial situation of Navarre; a memorandum explaining the contents of the budget with descriptions of the main objectives of each program; and the state of the execution of the current budget with a forecast for the remainder of the budget year.

Parliamentary/legislative involvement and scrutiny

121. As previously stated, the debates in Parliament can produce amendments to the budget, which are in two forms. Firstly, global amendments to the whole budget are proposed which usually do not proceed. Secondly, more specific amendments are put forward by the Finance Committee which are then voted on in Parliament. In the main the parliament itself has little impact on the budget. The Finance Committee has primary involvement with budget scrutiny and can bring Executive representatives in to answer queries in meetings. However, ironically, this appears to be a weakened process since this activity was made public; now Executive representatives tend to go for sound bites to satisfy the press rather than answering questions in full. This tends to reduce the Parliament’s scope for scrutiny. However, parliamentary influence can be exercised through the Auditing body. This organisation is headed by an elected representative and the Audit body is required to provide its assessments to the Parliament regarding economic and financial issues. Overall, the Parliament is weak and has no real will to increase its share of power in the budgeting process.

Public involvement

122. Involvement of citizen groups is a part of the budgeting process, having the influence of European corporatist styles of governing. The Government presents the draft budget to certain external bodies before it presents the document to the Parliament. There are three groups involved in budget consultations:

- The Economic and Social Council of Navarre
- The Environmental Council
- The Foral Commission of the local regime

123. The first is a mixture of labour and business organisations. This is a formal structure with appointed members who serve four-year terms. The government is the appointing body. Each organisation presents its own report on the budget and the Executive does try to take on board recommendations, although this would be more effective if there were agreement and a single report produced among the members.

124. The Environmental Council is made up of technical experts, and comments on the impact of the budget upon environmental concerns.
125. The Foral Commission is solely concerned with government operations in budgets and laws. In particular, in the budget process it provides information concerning how the budget will affect income resources of the towns.

126. In the Navarre region, citizens are included through essentially consultative ways rather than in ways which would engage them in the process i.e. they are not asked to make decisions, only to give their opinions which may or may not be acted upon. The outcome is, however, one of influence as the Government wishes to produce a popularly supported budget. It is the case that in other parts of Spain, the progressive Brazilian examples seem to have encouraged the fostering of increased public participation of a more engaged type. It is, though, too soon to judge whether these are successful - the report suggests that there is no obvious way to evaluate such developments.

Financial planning and control

127. Financial planning in Navarre is executed through the production of a 4 yearly medium term economic plan. This provides a control framework within which each year’s budget can be generated. The plan is updated in April each year in readiness for the preparation of the budget. This process has been used in Navarre for 6 years leading the way for national government.

128. The Audit body’s role is to control the public accounts and economic management of the public sector in Navarre. Since the early 1990s its ex post control of public sector management has not been restricted to financial and accountancy items but has been involved in the analysis of the economy, efficiency and effectiveness of public service interventions.

129. A particularly useful report, which supports the control and orientation of the budget and performance target setting, is the four yearly Audit body report on the performance of departments. This forms a strong tool for Parliament, enabling it to support the setting of performance targets. The Audit body has a well developed performance monitoring role.

Performance and budgeting

130. At present, performance target setting does not influence budgeting across all departments. Its occurrence is sporadic, even though the necessity of introducing budgeting by programs with measurable targets is laid down in law. Only some departments have fulfilled this aim. The example provided in full is the Health Department. It produces a health plan which includes a strategy, clear objectives, and performance indicators by which to evaluate the attainment of such objectives, together with the financial means needed for each year of operation. There have been problems with the execution of the plan. Firstly, while it failed to win approval in the Parliament, the Government went ahead with the plan regardless. Secondly, and related to the former situation, the plan has not gained the necessary resources through the budget to be properly carried out; nevertheless it is held as a key guide to activities.
131. The Audit body has suggested that the Government of Navarre assesses whether or not the present budgetary techniques are adequate tools for a public management which has to be guided by the principles of efficacy, efficiency, economy and transparency. It implies that Parliament should have an increased role in developing performance systems.
Georgia and Kansas, United States

132. The United States is a Federation of states. Constitutionally, however, the states have very little power and the system is described as one of “fiscal federalism”. The constitution is vague about the respective roles of the state and federal government and in practice the constitution is reinterpreted by the centre as new situations arise. The result has been that the federal state has gradually encroached on ability of individual states to make their own decisions. Budget and financial legislation is one area which has traditionally been the preserve of the centre and in this sense there has been little recent change. However, whilst the states can apply taxes, many are dependent on federal transfers, particularly for social programmes.

133. In the past, the reliability of these transfers has been problematic due to another feature of the US system, the potential for strong presidential power. This has resulted in the past in program funding being reduced or cut altogether, leaving states in uncertain positions vis-à-vis service delivery. In a similar way to UK central/local relations, there is a widely held suspicion at the federal level that state governments are inefficient in service delivery and when presidents wish to take power over federal transfers there is little to prevent it. There is therefore, little ongoing agreement between federal government and states over their respective responsibilities and the levels of funding necessary to continue their fulfilment. A further factor which is relevant for this report is that strong Presidential power is, or at least can be, replicated at the state level through the state governor. State governors can therefore take a lead role in budget and financial concerns.

134. In this section two US states are used as case study examples: Georgia and Kansas. The key characteristics of these cases are:

- Revenue raising is an important aspect for local budgeting and cannot be divorced from a full understanding of the budget process
- States vary to a great extent on tax issues, on the level of gubernatorial power, on the extent to which longer term and more complex financial planning systems are used and on who is involved in budget elaboration
- Consultation with the public (organised or unorganised) is not a feature of these cases nor it seems in general, concerning budget elaboration
- The legislature in principle is strong and can influence the process. However, this is curbed by the part-time and seasonal nature of their involvement. In reality, legislators delegate responsibility for much of the budget work
- Performance budgeting has been a strong trend for at least the last decade, although its impact has varied. These two cases provide examples of the different experiences. The Executive is the stronger party in performance related matters.

Budget process and documentation

135. The budgeting process at the state level is revenue driven as states, unlike the federal government, are required to balance their budgets and have statutory debt
limits. This is a reflection of the uncertain position of state governments regarding funding flows.

136. In Georgia, the budgeting cycle is annual, while in Kansas the budgeting cycle is a combined annual/biannual event, with some 20 agencies operating on two yearly cycles. In both states the budget is developed for approval by the legislators, however, they do so in different ways.

137. In Kansas, the case which reflects the most used method of budget development, the production of the consensus revenue estimate, firstly, in draft form produced in December and then in final form by the following April. As the name suggests, this is produced by a variety of actors from within the Executive, from the research department for the legislature and economists from 3 local universities. The estimates form the basis of the budget and when this is presented to legislators they can refer to this to adjust expenditures. This is a legally binding revenue projection for the state general fund.

138. In Georgia, by contrast, the revenue estimate is the sole responsibility of the Chief Executive (Governor), but is in reality produced by an economist. The economist will offer a low, medium and high revenue estimate to the Chief Executive and typically the lowest will be chosen. Again, the estimate is binding, and provides a ceiling for future appropriations.

139. The State Budget Examiners also have a role in budgetary matters through their evaluation work on programs, the findings of which may feed back into future funding decisions. The extent and level of their influence varies according to the nature of the decision and across state jurisdictions.

Parliamentary/legislative involvement and scrutiny

140. In general, deliberations within the legislature focus on a few issues that are contentious. In the main, most budget decisions are ratified by legislators without much attention. The legislatures, in theory, have complete power over budgetary decisions in all but three states in the US (Maryland, Nebraska and West Virginia), where their power is dampened by not allowing certain increases in expenditure. However, the time frame in which discussion occurs in the legislature ranges from four weeks to several months, to accommodate the part-time nature of the state legislator's role. This situation is seen to reduce the scope in practical terms for deliberation over the budget. Budgets rarely fail to be passed.

141. Governors in some states have powers that do not require legislative approval. For example, they can amend the budget by restricting spending by a certain percentage to balance the budget over the year. Governors are also allowed veto power over line items. There is, therefore, a balance between the Executive and Legislative power, with the legislature having much power in principle, but often delegating powers to the Executive. This appears to derive from practical necessity but there is no hint in the reports that this is any way causes discontent. Legislatures provide oversight during the budget execution and can still effect budget changes during the year if they wish.
Battles usually occur over revenue policy, most notably state aid to school districts. Legislators here regularly insist on cuts in the tax base and lower expenditure, with the governor tempering the revenue cuts to protect expenditure.

142. Across the execution of the budget, responsibilities are divided between the Executive and Legislature, with the reporting and balancing responsibilities falling to the former, and spending oversight falling to Legislators or fiscal committees. Often, small groups of legislators can make budget changes without recourse to the whole assembly.

Public Involvement

143. There is no public involvement as such in budgeting decisions; however, as we have seen in the ‘consensual’ processes outlined above, there exists some external influence on the revenue estimates around which the budget is made.

Financial planning and control

144. As previously stated, the states vary in terms of how often budgets are made. Annual budgeting is advantageous from the legislative scrutiny perspective but biennial budgets allow greater flexibility to both Chief Executives and agency personnel because of the longer time frame for planning. Biennial budgeting also allows for a more satisfactory performance approach to budgeting by allowing more time to develop and refine performance indicators. Incremental budgeting is the mainstay of the US system at federal level and remains the most often used at the state level. However other methods have been developed that work alongside incrementalism, examples include zero based, program and performance budgeting.

145. Georgia claims to use only zero based budgeting; however the Assembly passes a traditional line item budget. Most states have also used performance based budgets including Kansas and Georgia.

146. The work of the State Budget Examiners can lead to influence upon the budget. They can do this during budget preparation and budget execution. Their influence varies according to the issue; it is weak on high profile decisions such as school finance reform and high on base budget adjustments and moderate program enhancements. It is the budget examiner who has the responsibility to make decisions about whether or not requests for further funding/staffing will be allowed. They have the knowledge on which to make these decisions in a rational way. In high profile politicised situations the examiner usually puts forward scenarios from which the Governor may choose.

Performance and budgeting

147. State legislators tend to be more concerned with those aspects which affect service delivery in their legislative district than in performance issues which have largely been executive driven. Performance based systems have been introduced in Kansas and Georgia which provide some evidence on this topic. Generally, performance
measurement and budgeting reforms are thought of by both executives and legislatures to have improved agency results but not necessarily to have cut costs. However, research has tentatively suggested that performance achievement can lead to adjustments in allocations. But rewards are mostly used to improve or maintain performance rather than as punishments, which is often feared to be the outcome of these processes (Jordan and Hackbart 1999). The use of performance based budgeting is welcomed by the states’ stakeholders. It is certainly the case that the technical difficulties which plague this area do need to be adequately taken into account before embarking on this route, and Bradley and Flowers (2001) have recommended that leadership from both branches of government is necessary for effective reform.

148. In 1999, the Kansas Legislature enacted the Quality Performance program as part of a Higher Education Reform Act. Statutory requirements laid down the purposes of the program, the responsibilities of the Board of Regents, responsibilities of the institutions (in Higher Education), the eligibility requirements for the receipt of performance grant and the timeframe for implementation. The nature of the exact performance measures was to be shaped by the institutions themselves with regard to their aims and objectives, rather than utilising a standardised set of performance indicators. Institutions were encouraged to present both qualitative and quantitative measures.

149. Alongside this innovation came the Quality Performance Grant Program, which allowed extra funding of up to 2% of an institution’s base budget if the institution’s managers and the Board could substantiate progress in each core indicator area. The payment of this would rely upon the funding being available.

150. Kansas University duly set about developing performance indicators for its plan. These were developed and discussed at 6 meetings of a special performance committee. Part of the impetus to comply was the fear (which was unjustified) that the 2% could also be cut from the base budget.

151. The State Budget Office has recorded these developments, but as the funding became constrained the requirements and the indicators remain in print only. In reality, budget decisions do not seem to have been made with reference to performance in Kansas.

152. Further legislative developments have dictated that the Board of Regents should develop a unified budget for all post-secondary education, and receive and allocate funding to educational institutions. Beginning in 2006, increases in state funding will be dependent upon the meeting of performance goals. However, again in a situation of resource constraint, the emphasis upon developing and implementing this system is currently not the main priority.

153. In Georgia, performance systems have been more highly developed and utilised. While, like Kansas, the budget is also strongly policy oriented, in Georgia, there is also a strong control orientation through the legislative adherence to a strict line item appropriation bill. Control is also exerted through the examiners who are assigned to
particular policy areas. Between 1990 and 1998, Governor Zell Miller required examiners to provide independent research and a proactive approach to budget review.

154. Budget examiners, in turn, are proactive in shaping the budgetary outcome but have to be prepared to make sound cases. In Georgia, there is a Legislative Budget Office who also conduct analyses of budget requests, given that they are fewer in number and have more masters to serve than those on the Executive side, they have a less pronounced role but, nevertheless, are considered to put a less political slant on their analyses and therefore provide a useful additional perspective.

155. Outcomes based budgeting was introduced in Georgia in 1993 through the Budget Accountability and Planning Act. This is the responsibility of the Budgetary Responsibility Oversight Committee which is a part of the Legislature and performs systematic reviews and evaluations of agency programs. Part of the Act also instituted continuation budget reports produced by the Office of Public Budgeting (part of the Executive) as a component of the budget review. Incentives were defined to encourage goal attainment by agencies. Zell Miller’s budget reform is considered sophisticated although it is based on a cutback management style. He has also implemented budget redirection where agencies root out cost savings and return a portion of their budget (UK Central Government uses a similar process to fund the Neighbourhood Renewal Fund intended to improve core public services). A privatisation initiative has also been used to affect cost savings.

156. The law providing for the outcomes based budgeting installed a two-tier system of strategic planning. The Office of Public Budgeting develops a strategy for the state and the agencies develop their own plans which are then reviewed by the Public Budgeting Office who check that they are congruent with the state’s plan. This Office also encourages cost savings and administrative innovation. In principle, 50% of any saving can be ploughed back in to the agency, however, in reality budget redirection and continued privatisation has been used.

157. Better information for the Assembly is considered another positive outcome of these reforms. Continuation budget reports are created for the budget process. Full information about the missions, performance and results of agencies is presented to the Assembly. Agencies are also required to submit proposals for new funding to the Assembly in good time, so that legislatures can consider new initiatives more fully. The Budgetary Responsibility Oversight Committee is also thought to support the Assembly. This body routinely, and upon request, evaluates state agencies. It also supports the cost saving agenda.

158. Overall, the new system has provided greater accountability to the public, incorporated the legislature into performance evaluation and given the Governor power over strategic planning around his priorities. Performance measurement has been, at least to a certain extent, institutionalised. The initiative, though, is not considered the answer to whether or not funds should be allocated, as some factors are necessarily out of the control of agency staff. The emphasis is on reliable information collected longitudinally as part of the information needed for budgeting decisions.
159. In the US, while legislators generally delegate responsibility for assessing performance to the Executive, the involvement of the Georgian Legislature is perhaps unusually high. In general, while the performance is not directly of interest to legislators, being the preserve of the Executive, the process is seen to provide information on which to base decisions because the data provides evidence about district performance which the legislators have responsibility for and have a direct interest in. Changes to budgets, where better performance systems are used, are likely to be made on the basis of better information and greater transparency, and in general these moves are seen as positive. The outcome is that legislatures are on a more equal footing with the Executive.
New Zealand

160. In New Zealand there is highly limited Parliamentary scrutiny, as in the UK. In fact, New Zealand’s version of the Westminster Model is described as being more British than the British system itself. This system has been further strengthened by the abolition of provincial government in 1876 and the establishment of a unitary system. New Zealand also has a unicameral legislature, having abolished the upper house in 1951. It is described as having the purest example of the Westminster model of government, with its virtually unconstrained executive authority. The characteristics of this include:

- New Zealand has been a frontrunner in public sector reform, having established early on the use of Resource Accounting and Budgeting systems
- Little parliamentary scrutiny emerges from the system as it operates within mainly administrative law
- There is a strong privatisation agenda, and administrative reforms (mainly under the guise of full accrual accounting) are designed to weaken the capacity of public sector provision

Budget process and documentation

161. The financial year begins on the 1st of July in New Zealand. The budget process begins in December with the publication, by the Government, of the Economic and Fiscal Update. This includes the fiscal forecasts for the current and following three years. The priorities for the budget are prepared by the end of the year by the Ministers and the Cabinet. This forms the basis for the Budget Policy Statement which sets the parameters of the budget and is published no later than 31st March. This document has to conform to strict control guidelines which set an upper limit for the total budget and the individual department totals. This is then translated into the budget which is presented between May and July.

162. Parliamentary scrutiny takes place mainly through a subject committee system, where committees have responsibility for particular policy areas. Committees are made up so as to reflect the party membership of the house. In addition, the Finance and Expenditure Committee produces a report on the budget policy statement, after which it is debated by the whole house. There is no other parliamentary involvement in budget scrutiny before the budget is presented.

163. The budget is presented along with the review of the Estimates. Select Committee examination is the central way in which Parliament considers the budget and makes its recommendations for acceptance. Select committees are also involved in more in-depth scrutiny of departments in relation to their performance. These Committees receive considerable support from the Audit Office in their scrutiny of estimates and performance. This usually occurs through managers responsible for particular sector areas who can then develop an expertise.
164. The Auditor General is also an important component of parliamentary scrutiny, being involved in financial report audit; performance audit; the examination of issues of compliance, waste and probity, and inquiries into the matters of concern raised by taxpayers, ratepayers and politicians.

Parliamentary/legislative involvement and scrutiny

165. With much of the process of budgeting occurring in the Executive, particularly the introduction of the value for money reviews, which Parliament is not informed about until changes are made, the role of Parliament in scrutiny is viewed as minimal and what scrutiny it does have has tended to miss important outcomes of new systems.

166. A particular problem has arisen out of the increase in complexity and size of the information provided to Parliament, with the result that legislatures do not realise that approval of appropriations does not mean that departments will actually receive the funds. Ambiguities exist in the interpretations concerning the meaning of appropriations. There is confusion concerning whether parliament simply grants permission to incur expenditure to bodies or that they also grant resources with which to carry out duties.

167. In addition, scrutiny through the Parliamentary Review has undergone a reduction in the time available for debates, from 13 days to 20 hours in the case of Estimates and from 10 hours to 4 in the case of Financial Review.

168. Nevertheless, despite the tradition for Executive control and some recent process innovations, other factors have made the budget process less secretive. The change to proportional representation has created the need to negotiate policies between the various parties in parliament. Other factors which have helped are the publication of the Budget Policy Statement before the budget and the subsequent debate on it, together with the production of the Finance and Expenditure Committee’s report.

Public Involvement

169. Citizens are incorporated into decision making through various structures, such as consultation and public submissions, while the public may attend hearings on submissions. However, the conclusion is that the budget is not open to parliamentary or public involvement to any great degree, particularly during its development.

Financial planning and control

170. The New Zealand legislation for budgeting and performance has undergone a series of amendments from 1988. Among the outcomes of these Acts are: that Chief Executives are responsible for performance; accounting procedures are, in principle, to operate on a full accruals basis centred on outputs; the principle of budgeting is prudent management; and perhaps most importantly, due to its impact on financial planning, is the legislation which has delegated regulatory powers to the Minister, the Treasury and the Governor General. This has resulted in a complex layer of secondary regulation.
171. Such secondary regulation covers various areas: Ministers can choose the banks which the crown or departments use and can transfer money between accounts, while the Treasury may prescribe the accounting policies for departments and can regulate the use of public money and the accounting, financial management and control procedures relating to contracts of the Crown.

172. The result of these changes has meant that an existing powerful executive system now works alongside a highly managerialist accounting and budgeting administrative system. Whilst the New Zealand reforms have been considered progressive within public management, this case study highlights weaknesses. Probably most importantly, Parliament has failed to exercise any control over the executive. A similar ‘Resource Accounting and Budgeting’ system has been introduced in the UK, although there is little evidence that this is operating in the same way as in New Zealand.

173. Resource or accrual based accounting has been designed to provide comparisons between public sector and private or outsourced provision. However, the new systems have led to the support of a ‘new right’ political agenda, in particular privatisation. Those who claim that the new systems are an improvement have a bias towards privatisation and away from public sector provision and tend to focus upon the intentions of policy, rather than the detailed secondary legislation and the actual outcomes of policy. However, the mechanisms by which this occurred or how it has escaped parliamentary scrutiny are not apparent.

174. The accounting system is defined within secondary legislation, not the primary legislation. The accounting procedures incorporate systematic biases which run down the capability of government operations. They do so by a continuous process of eroding resources, preventing the purchase or replacement of assets and promoting the disposal of assets.

175. In principle, accrual accounting practices would treat both public and private entities in a similar way, along the lines of an idealised business operation. The reality is that it becomes difficult for the public sector to compete because of the particular accounting procedures and other mechanisms adopted. Even identical formal accounting conventions can have differential effects in the different sectors. In reality, various aspects of public sector resource accounting can militate against the public sector (for example the ways in which capital charges, risk and depreciation are accounted for).

Performance and budgeting

176. In 2001, a new system of performance management was introduced in which departments are to develop “Statements of Intent”. These require departments to adopt a more strategic and outcome focused approach to planning, management and reporting. Part of the initiative is to move away from an annual focus. Therefore the Statements contain both a long-term component for 3-5 years and an annual component. It is intended that this will provide better information for the effective management of the departments. Fifteen departments have already taken part in pilots and a general roll out will occur in 2003. Departments are required to develop their own focus for activities. The Statement of Intent system is a comprehensive approach to
performance management and will feed into the budget process as forecasting documents. This is a response to issues raised by the Audit Office concerning reporting to Parliament and performance management. However, it is as yet too early to know whether this will improve the systems under which departments and resources are controlled.
Australian Capital Territory

177. As a federal system, the various Australian territories have a degree of independence and therefore do not follow the same budgetary processes. However, all have attempted to make performance more transparent, although the new results-based framework is still at an early stage of development and some, including the case study presented here, have been willing to open up the budget process to groups beyond the Executive. The key characteristics of this case are:

- The Australian Capital Territory is the only territory/state in Australia to have public involvement
- In principle, the legislatures have a good deal of power over budgeting although this is not often exercised
- Steps to increase public involvement are seen as ‘political window dressing’ and may have limited the information given to the legislature
- Steps to develop performance systems related to budgeting are, in general and in this case, slow to develop

The budget process and documentation

178. The budget process in the Australian Capital Territory begins with the Treasury calculating the revenues against expenditure and establishing how much new money is available for the following financial year. This projection is then sent to the Cabinet for discussion regarding priorities. The budget is then prepared in draft form by the Executive and presented to Parliament in January. Scrutiny of the estimates then begins. Five legislative Committees comment on the draft budget and views are taken also from public consultation. After this first round of consultation the final budget is prepared and this is referred to the Assembly’s Estimate Committee for full scrutiny.

Parliamentary/legislative involvement and scrutiny

179. Legislative involvement begins with the publication and presentation of the draft budget to the legislative committees who are formally invited to comment. This process, once compulsory, has now been made optional. This has become something of an issue with the Labor Party, because it is opposed to consultative processes. The system has been retained in spite of this and whilst there was the option not to comment in 2002, all five committees continued to do so.

180. In theory, there is a high level of discretion for the legislature over the budget; there is no restriction over increasing or decreasing spending proposals. In practice, very few items are changed, although there are examples provided. Estimates Committees do not have the power to change either the budget estimates or the priorities of the Government. Their role is to question the use of government funds and thereby hold the Government to account for its performance. There is no limit within this particular territory on how many times a witness can be recalled, however a date has to be set for the final report. The scrutiny process is also held in public but only Parliamentarians can scrutinise the estimates.
181. Complaints have been made about the fact that the final version of the budget includes new items which were not available to legislators earlier to comment on. This undermines both the scrutiny of the draft budget and of the exercise in consultation.

182. The budget consultation process has not been extended to the monitoring or scrutiny of performance. The Legislative Committees have the opportunity to investigate performance data, however, this is the focus of only one committee.

Public involvement

183. Citizens are formally included in the Australian Capital Territory, the only one to commit itself to this process. It is claimed by the Executive that this is part of modern government and has possibly been encouraged by the lack of overall single party control in the region. In total, forty-seven local community organisations are consulted and advertisements are published in the local newspapers inviting individuals to comment. These organisations are consulted at the draft budget stage along with the legislature. Their submissions are considered by the legislative committee and the government as a whole. There has been a good response to this process. In terms of impact, it appears that there has been some shaping of priorities by community groups.

Financial planning and control

184. The Chief Executive is designated as the accountable financial officer and deals with financial management and control. Most public sector agencies operate within a business planning framework, using their budget statement as the main planning document, with other program and project management plans cascading from this overall statement. The legislature has no involvement in these processes although the portfolio budget statements are presented to it. It is possible for the Legislature to scrutinise, 'ex post', cases where agencies have run over budget. Attempts in other territories to increase the occurrence of financial information have been met with disinterest from politicians.

185. The integration of performance information, both past performance and future targets, has begun but is as yet in its infancy. All jurisdictions use some form of performance statement as supporting documentation for accrual budgets and the Capital Territory is no different. All moves to use performance information are slow in development.

186. Recently, there have been complaints about the complexity and lack of clarity of accrual based information. The review that has been held on this issue argued for clearer performance-related information to be included in the portfolio budget statements.

Performance in budgeting

186. The use of performance measures to influence budget allocations is at the initial stages. This information is often used in the executive's allocation of funds but may or
may not appear in the budget documentation for the legislature, thus leaving them in an information asymmetry situation. Outcome based frameworks are used by most Australian governments, and they have provided better information for management and the public. However, moving from the situation in which reporting has to include what the service does; an accurate costing; and their consistency with priorities, towards explicit performance information, (hard commitments, targets and performance indicators) is the subject of debate. Some produce ‘whole of government’ indicators but these have little direct relationship to government programmes or resource allocations. State level agencies produce financial statements but not detailed performance data. The legislature is seen as having virtually no involvement in the business planning processes of agencies and only the budget statements from agencies are seen by the legislature.

187. The situation in ACT is similar to the Scottish situation, although ACT appears to have had more experience at running consultative processes and has had a little more success (e.g. there are examples of both legislators and community organisations being more engaged). However, community involvement was cited as important in relation to ACT legislation, and it was proposed that this should operate through the legislature. Wanna argues that the decision to take a consultative approach was taken to acquire legitimacy for spending proposals by the Liberals, who led a minority government and thus required support from another minority party to pass legislation. Changes to allocations have rarely been made, suggesting that the process is not influencing decision-making. Changes, when they are made, tend to emerge from ‘bi-lateral’ bargaining with independents rather than through legislative committees. Wanna argues that the wider community is provided with advance knowledge of government intentions and this has given it power in the bargaining process. However, the government responded to this in 2002 by including less information in the discussion paper. Overall, the process is described as political window dressing and as serving the government’s not the community’s interests.

188. The outcome of ACT, Wanna argues, is that it raises fundamental issues concerning our political systems as to the degree to which budgets should be set by the government or the whole legislature and perhaps also the community. This needs resolving and actors need to be committed to the process once this has been decided.
Lessons for Scotland

189. We make a number of suggestions below, based on our analysis of the case studies and more general analyses of budget and financial management changes.

190. Many of these suggestions could not easily be implemented without parallel changes in the way in which the Scottish Executive operates, for example the introduction of longer-term planning horizons. As the Scottish system is attempting to evolve a more collaborative relationship between legislature and executive we assume there would in any case be a need to discuss these changes with the Executive.

Inherent Difficulties

191. In most of the cases we have looked at, and in many other national, sub-national and local governments, there have been various attempts to reform budgeting and financial processes with a special emphasis on making them more open, accessible and accountable.

192. In some cases this has been motivated in part by financial drivers – the need to cut budgets. Sometimes this has meant that attempts at opening up budget processes can be perceived as merely a means of sharing the pain of cutbacks. In nearly every case there has, however, also been an element of modernisation and genuine attempts to open processes for the sake of accessibility and accountability.

193. The first lesson to draw from these cases is that it is not easy to just ‘open up’ budget processes. There are a number of important barriers which have to be taken into account.

194. First, is the size and complexity of modern states. These produce large and complex budgets and financial systems which are not easy to simplify in ways which make sense to legislators and executives, never mind ordinary citizens. In most cases they have also accreted an impenetrable language and style of their own over decades, which adds to the difficulties of understanding what is going on. Attempts at simplification and better explanation are being made in many jurisdictions but with very mixed results.

195. Second, is simple inertia in the behaviour of key actors. Whatever structural, institutional and systems changes are introduced, there is a strong tendency – as clearly evidenced in some of the case studies – for people to simply carry on more or less as they did before. Old habits do truly die hard. This applies equally to executives, legislatures, administrators and citizens. It takes immense effort to change behaviour successfully in the desired directions for all concerned.

196. Thirdly, there are inherent paradoxes or irresolvable dilemmas and tensions in public administration which are not easy to overcome. The format of budgets is a simple example. A broad, ‘strategic’ budget seems to make sense in enabling everyone involved to discuss the really big issues in the allocation of resources. On the other hand, ‘the devil is in the detail’ and for many actors – various interest groups, opposition parties, managers and professionals – detailed budgeting is a way of
holding the executive to account and ensuring fair-play for their particular interests. There are then, equally good arguments for both ‘strategic’ budgets and detailed ‘line item’ budgets. The net result of these equally legitimate, mutually opposed, pressures is that the more reform is pushed in one direction, the more the likelihood is that there will emerge a countervailing force pushing in the opposite direction. As budgets become more strategic and less detailed, someone will complain about lack of transparency and failure to disclose vital details, and vice versa.

197. Fourthly, (and closely tied to the previous point) in most jurisdictions we have evolved complex systems of ‘checks and balances’ in dealing with public finances and any change inevitably disturbs these. This can lead to charges (mostly unfounded it has to be said) that reforms to financial systems have opened up space for increased fraud, abuse and sundry other ‘crimes’. So an element of caution is inevitable.

198. The case studies provide ample evidence of these types of problems emerging. This is not to say that change is either impossible or undesirable, merely that it is difficult, and to be ultimately successful takes perseverance and time. **The lesson for Scotland may be that the developments in budget scrutiny since devolution simply require more time to work as intended. Substantial change to the process may not be necessary.**

199. There are, nevertheless, some interesting ideas which emerge from our case studies and survey which might help to ensure that the system of scrutiny now in place in Scotland does succeed.

**Longer Planning Horizons**

200. In several of the cases, there are continuing or renewed attempts to plan public spending on longer time horizons than merely annual budgeting.

201. In the case of the European regions, this clearly relates to the long history of state planning in such states and the much more interventionist and ‘state-ist’ style of these countries (dating back, arguably, to Napoleonic times). In the ‘Anglo’ countries (USA, New Zealand and Australia) this is a more ‘managerialist’ based trend. But in both cases there is clearly a desire for some form of longer range planning in public finances.

202. Prior to 1997 Scottish Office budgets were drawn up under the old Public Expenditure Survey (PES) system which, however indicatively and loosely, mapped out spending over 3 years or more into the future. The Labour Government first abolished PES and then replaced it in 1998 with the ‘Spending Review’ process which is now officially described as a ‘three year plan reviewed every two years’.

203. **Given the context of the 2-year Spending Review settlements it would seem sensible for the Scottish Parliament and Executive to consider if at least some parts of budget scrutiny could be put into longer term financial planning terms.**
Executives and Legislatures

204. In nearly all of our case studies, there is some form of balanced arrangement of powers between the executive and legislatures. The form of these systems varies greatly but the biggest lesson is that it is the actual practices adopted by both sides (and others) which determine the real dynamics of the budget process, rather than the formal arrangements. In some cases (e.g. in some US states) the legislature in practice abdicates much of its responsibility for budget-setting to the executive. Even where specific reforms have been introduced to increase Parliamentary participation these have not necessarily worked as intended (e.g. in the Flemish system).

205. The lesson for Scotland here seems to be that it is practice and culture which matters most, rather than the formal arrangements for involving legislators. It is clear that, prior to devolution, Scottish public administration was used to a very non-participative, executive dominated system. Creating the new, less adversarial and more participative, culture between the executive and the legislators will take continuous effort to overcome old habits.

206. Making such changes is not easy. It takes time for confidence to build up that new systems really can be made to work and so that, for example, politicians can retain distinctive policies whilst co-operating in areas of possible agreement. In some of our case studies and in other jurisdictions a range of institutional, systems and ‘change management’ type initiatives have been deployed to try to make more consultative systems work.

207. In terms of cultural and behavioural change, sometimes methods have been borrowed from organisational development and change management approaches. These include simple training and development exercises, such as joint training sessions for politicians, from all parties, and administrators on issues such as budget processes, financial management, policy analysis and so on provided by external, non-partisan, facilitators. Some more advanced techniques, such as community visioning exercises and scenario planning exercises have also been employed.

208. In addition there are specific organisational, institutional and systems changes which may aid the process of cultural change. Some of these ideas are presented below.

Legislative Budget Office

209. One obvious difference between Scotland and many of our case studies is the resources available to legislators in developing budget understanding and proposals. This requires a certain level of technical and other resources to be made available successfully. In many jurisdictions this has been addressed by instituting some form of ‘Legislative Budget Office’ (LBO) which provides this support to legislatures. This seems to be an important element in balancing the power of the executive caused by “information asymmetry”.

210. LBO’s vary in their functioning but common elements would appear to be: offering general guidelines and advice to finance and specialist committees; producing general reports on budget and financial management issues, often including a commentary on
executive budget proposals; and producing specially commissioned reports where requested. It would usually be staffed primarily by accountants, auditors and economists. They also often seem to develop a network of links with independent specialists, interest groups and others.

211. As a specialist financial function an LBO is more narrowly focussed than something like SPICe, which provides much more generalist policy advice and research capabilities. A Scottish Parliament Budget Office (SPBO) would therefore be a rather different animal from SPICe and there would of course be consequences for the organisation of the other functions currently undertaken by SPICe.

212. Some form of SPBO which supports the Finance Committee and subject committees would provide a major re-balancing and might enhance the participation of the legislature in the budget process.

Institutionalised Budget Consultation

213. Several of the case studies (especially the European ones) contain instances of some form of institutionalised consultation over the budget. These usually involve a range of private sector, voluntary and other civil society bodies and seem to be mainly focussed on the ‘big issues’ of distributing public funds between various policies, programmes and organisations.

214. The equivalent in a Scottish context would be a formal consultation on the Annual Expenditure Report and forward projections or, probably more usefully, on the Draft Budget.

215. Whilst there is consultation on the policy and programme areas covered in the budget via the subject committees, there does not seem to be a mechanism for a similar or even more formal consultation with key external stakeholders for the draft budget as a whole (even though some informal consultation does take place).

216. Such consultation could either be conducted on a ‘one- two- many’ basis or through the establishment of a formal consultative body set up along the lines of the European examples (or even drawing on the Scottish experience of the Constitutional Convention).

Innovative Forms of Budget Consultation

217. In addition to formalised consultation processes we have identified many examples – in both the case studies and in the wider literature on budget reforms – of more innovative ways of involving the public and other actors.

218. At one extreme of these changes lies ‘direct’ democratic involvement in budget (or taxation) decisions. These have included the use of plebiscites or ‘initiatives’ to change specific taxes or budget provisions (e.g. in California) or to decide on priorities (e.g. in Oregon).

219. The major criticism of these approaches is that they are (mostly) isolated decisions which may gather false majorities behind simplistic decisions, for example to cut a
particular tax, without having to deal with the consequences (i.e. decide which public services to cut).

220. Alternative approaches have focussed more on deliberative and educative processes, such as citizen advisory panels or juries (UK, USA and elsewhere); community 'visioning' or scenario planning exercises (USA, Canada, some UK local authorities, etc); issue advisory boards; opinion surveys and panels; as well as the more traditional mechanisms such as local consultative meetings and so on. More recently, various internet-based forms of consultation have also been tried.

221. It would seem sensible for the Parliament to consider some of the latter ideas, particularly in connection with the ‘stage 2’ preliminary draft budget and the subject committees. The latter could be encouraged to experiment with more innovative forms of consultation, for example by holding consultative conferences, appointing advisory panels, etc.

222. There are precedents for this:

- The Scottish Executive already carries out ‘budget roadshows’ where the Finance Ministers go out to ‘meet the people’ and get their views on the budget plans.

- The Parliament’s Enterprise and Lifelong Learning Committee has held a number of events where stakeholders meet to discuss the committee’s draft reports. In 2000, it organised a ‘Business in the Chamber’ event in which business people provided feedback on the committee’s report on local economic development. In 2002, the committee’s draft lifelong learning report was put to a Lifelong Learning Convention and revised in the light of feedback from stakeholders. Might the Executive undertake this sort of activity?

Linking Budgets to Objectives and Performance

223. The developments in the direction of tying budgeting into setting clearer objectives and performance targets for policies, programmes and/or organisations, is evident in many of the case studies. Practice in this respect varies enormously and indeed has evolved rapidly within different jurisdictions. But it is fairly clear that simply discussing ‘what is to be spent?’ is increasingly being tied to asking “why it is being spent?” and “how do we know if we have achieved what was intended when money is allocated?”.

224. The Finance Committee is already exploring the issue of “outcome based budgeting” and we do not wish to repeat that work here.

225. It might be useful, however, to mention briefly some other UK developments which may be of relevance and which the Committee might wish to examine more closely:

- The Welsh Assembly has adopted a process not dissimilar to that in Scotland but which has included performance objectives and targets as part of the documentation and consultation process. Other bodies (e.g. the Employment Service) have introduced direct consultation on performance targets (in their case by a draft performance plan and annual consultative conference).
• The Strategy Unit in the Cabinet Office has recently published an interesting paper on ‘Creating Public Value’ which changes the emphasis in ‘performance’ measurement from a purely efficiency and effectiveness focus onto wider values about public service.

• The Public Administration Select Committee (House of Commons) is currently conducting an inquiry into the use of performance measurement and targets which has already collected much useful evidence and is likely to prove an interesting report.

• The various audit bodies – Audit Scotland, the National Audit Office and the Audit Commission – have all produced useful work on performance related issues in the past couple of years.

226. Finally, it may also be useful to consider whether some consultative or participatory element could be built into the setting of performance regimes.

Rolling Reviews of Programmes, Departments, Performance

227. Often linked closely to issues such as ‘zero-based’ budgeting, performance and policy evaluation is the idea of carrying out periodic reviews of policies, programmes or organisations. A number of our cases included examples of such practices and there is much written about them elsewhere.

228. Generally, the aim is to review only a fraction (usually around one-fifth to one-quarter) of activities in any year, so that cumulatively the whole of public activity comes round for a periodic review. The reviews themselves may be more or less formulaic in application; involve self, independent, audit, peer or legislative reviewers (or any mixture); and be treated as developmental or punitive exercises. They may focus on narrow performance (in the efficiency sense) or on much wider issues.

229. The argument in favour of periodic rolling reviews is simply that to review everything at once is too difficult and to review nothing is too complacent. By focussing on a smaller group of activities a healthier, more challenging, debate is likely to ensue. Their principal danger (judging by experience in our cases and from other sources such as evaluations of the ‘Best Value’ regime and civil service agencies) is that they can become bureaucratic routines and ritualised, losing their impact.

230. The Scottish Parliament may wish to consider whether some form of rolling review could be incorporated into the annual budget cycle – for example as part of the Annual Expenditure Report discussion.

231. It may also be useful to consider whether some consultative or participative element could be incorporated into such reviews.

Staged Budget Processes

232. In our case studies and elsewhere, there are many examples of ‘staged’ budget processes which start with preliminary drafts and go through several iterations before a
final budget is approved – usually involving both legislative and external consultation in
the process. Scotland has already adopted such a process and is clearly in line with
thinking elsewhere in the world (apart from Whitehall).

Simplified Budget Documents and Budget Formats

233. In many cases we have seen examples of attempts to simplify budget documents.
The general idea seems to have been that simpler budget documents make for greater
accessibility and openness and easier participation by legislators and others. Some
points arise from both our cases and other work.

234. Firstly, whilst it is true that simpler budget documents can make them more
accessible, it does not mean that they will be looked at. It takes a considerable
communications effort to encourage people – even including legislators – to look at
such documents seriously.

235. Second, simplification can be problematic in so far as it can be used as a device by
executives and administrators to ‘hide’ troublesome details. The Flemish example
indicates that simpler, more ‘strategic’ budgets can improve the possibility of wider,
less involved, audiences to understand and comment on the budget, but can actually
diminish the ability of more engaged actors to influence the budget. There is obviously
a delicate balancing act here.

236. Third, simplification is not a ‘one off’ – there is an inevitable tendency for budget
documents to become more complex over time unless countered.

237. Fourthly, resource (accruals) accounting and budgeting may be a more accurate
way of recording how public finances are being used but it is also less accessible than
cash accounts to the lay person. This raises some difficult problems, especially at the
budgeting stage.

238. All of the above means that the format of budget documents needs to be kept under
constant review. This may also be an area where some form of external consultation –
using something like a citizens’ panel – might prove useful in developing formats which
are open and accessible.

239. Whether budget documents are simple or detailed, there are important issues about
how they are presented. In our cases there are examples of budgets constructed
around organisational units or policy/programme areas or functional separations (e.g.
administrative budgets and programme budgets) or mixtures of all of these.

240. There does not appear to be any simple solution to this problem:

- Budgets and performance focussed on organisations are good for pinning down
  accountability and improving the efficiency and effectiveness of units; whereas

- Budgets and performance concentrating on programmes and policies (usually
cutting across organisational boundaries) are good for improving delivery and
  focussing on what the end users expect from public services and what is achieved
  in terms of outcomes.
• Budgets and performance which separate functions (e.g. administrative overheads from programme spending) are useful for identifying potential areas for efficiency savings and also for having a clearer picture of what is actually being spent on delivering services.

241. The solution adopted in some jurisdictions is to adopt a sort of matrix based or layered system which identifies budgets and performance in more than one way – although this also has disadvantages in possibly watering down accountability.

Consensus Revenue (and Need) Estimates

242. A final suggestion which emerges from the research is that if longer time horizons are adopted in firm budgeting they need to be based on realistic expectations about resource availability.

243. Scotland’s total financial resources are largely determined by the outcome of the 2 yearly Spending Review in Whitehall but there are still some elements of uncertainty within total Scottish finances.

244. These are caused by various factors, such as: variations as a result of changes in Whitehall spending between Spending Reviews, and even sometimes in-year, which affect Scottish resources; re-distribution of end-year flexibilities; periodic accounting changes; and so on.

245. This makes for some degree of doubt, even for 1 or 2 years ahead, about total income. Moreover, the UK-wide system is in practice only a 2 year system, despite the 3 year horizon adopted in Spending Reviews, making the 3rd year of Scottish finances always uncertain.

246. In order to facilitate longer term budget planning, some jurisdictions have adopted methods for estimating realistic assumptions about their likely incomes. Whilst clearly the variations in Scotland are likely to be smaller, it might help with longer term planning (for example over 3-5 year horizons) if income could be more reliably and consensually estimated.

247. One of our case studies uses an external and internal panel of experts to reach a consensus on revenue forecasts on which to base their budgets – a similar scheme could be adapted to provide a longer-term estimate for the resources likely to be available to the Parliament.

248. This could also be expanded to provide estimates of real growth in service costs, in need and other factors in particular activity areas. Independently generated and perhaps even audited (as the NAO does for the Chancellor’s budget assumptions) estimates along these lines could provide a useful extra source of information for both the executive and parliament in making their judgements about future provision.
References


ANNEXES - CASE STUDY REPORTS
Case Study Report – Australia

Professor John Wanna
Griffith University
Brisbane, Queensland, 4111

Dr Christine Ryan
Queensland University of Technology
Brisbane, Queensland, 4111

1.1 Introduction

Australian jurisdictions do not follow the same pattern or directions in their budgetary processes. Some have been prepared to experiment with more open processes while others have not changed their traditional ways of appropriating expenditures. All jurisdictions have made some progress towards making performance more transparent, although the results-based reporting frameworks are still as an early stage of development.

This report examines features from the systems present across the jurisdictions, but comments particularly on the practices found in the Australian Capital Territory (ACT) which most closely aligns with the current Scottish procedures.

1.2 The processes of budget and performance target setting, financial and business planning and financial management and control by governments

Most Australian jurisdictions use a ‘top-down’ process of establishing overall expenditure aggregates which are then translated into portfolio limits or spending commitments. In this process the funds available for new projects are projected (either additional funds or ‘savings’ extracted from departments). A ‘measures and pressures’ analysis is undertaken and most jurisdictions use a sub-committee of cabinet (ERC or BRC) to decide on new policy measures (through a combination of strategic priority setting and agency bids). Governments have attempted to stipulate their strategic priorities at an initial part of the budget cycle (although these have tended to remain relatively unchanged from year to year). These priorities (in theory) limit or shape the types of budget bids the various agencies can make. In some jurisdictions (eg ACT, Queensland) the treasury calculates revenues against the existing pattern or trend in expenditures and calculates how much ‘new money’ is available for spending in that budget year – this figure then goes to the cabinet for their deliberation and priorities are established.

Often at the sub-national level, funds are budgeted or new programs approved without explicit performance targets being set (amounts are allocated to new services, programs, or additional infrastructural projects which are itemized in the portfolio budget statements). Performance information may be used in the executive’s allocation of funds, but may or may not appear in budget documentation for the legislature (and often it is embryonic). Most governments
operate a results-based or outcome-based framework that has improved the information presented to the public and provides a clearer framework for management. These systems are still in the initial stages of implementation and it is not yet clear how well they promote actual performance or provide reliable performance reporting data. For example, New South Wales, Victoria and Queensland have adopted a ‘managing for outcomes’ framework which focuses on three aspects of budget presentation: that services are articulated clearly; that they are accurately costed; and that they are consistent with the government’s priorities. The extension of this framework to include far more explicit performance information (hard commitments, targets, performance indicators) is subject to ongoing debate within central agencies. Some jurisdictions report variously assembled data on ‘whole of government’ outcome indicators (e.g., crime statistics, educational results) – but these often have little direct relationship to government programs or resource allocations. While state level agencies produce detailed financial statements in their annual reports, most do not provide comprehensive performance data – especially year-on-year or compared with previously stated commitments. In Western Australia the Auditor General has the mandate to audit and verify reported performance data for accuracy (but is not entitled to comment on the appropriateness of such information). A number of local governments report on output performance (metres of paving, pipes etc) in both their budgetary documentation and triangulated with the annual reports.

In statutory terms, the chief executive officer of an agency is identified as the accountable financial officer. They are not able to delegate or off-load this responsibility. Chief financial officers and agency-based financial staff assist with financial management control. Almost all public sector agencies operate from a business planning framework – most using their specific portfolio budget statement as the main planning document with various program and project-management plans cascading from this overall statement.

In all jurisdictions the legislature has virtually no involvement in the business planning process of agencies, and with the exception of the portfolio budget statements most business planning information is not tabled with the legislature. The legislature is able to scrutinize cases where agencies have run over budget or shown signs of poor budgetary control, but this can only occur after the budget year (most legislatures are not provided with any relevant financial information in-year – although the Commonwealth experimented with monthly financial reporting in the year 2000 but discontinued this after little interest was shown in such regular reporting). The Commonwealth also produces a mid-year economic and fiscal outlook report in October (a ‘half-yearly’ report), that updates its projections (including fiscal balance projection) and reports any changes to spending since the May budget. No state or territory produces such a mid-year update.
1.3 The methods and degree of Parliamentary and other involvement and scrutiny in budget and performance issues, with particular regard to bodies equivalent to the Finance Committee in the Scottish Parliament

1.3.1 Scrutiny of Budget Estimates

In Australian jurisdictions (with the exception of ACT) the budget is generally prepared by the Executive in a closed process. Scrutiny of the estimates begins once the budget has been presented to Parliament. The main mechanism used by all governments in scrutinizing the budget process is through special estimates committees (mostly upper house committees unless the legislature is unicameral). These estimates committees do not have the power to amend budget estimates or the government’s priorities. Their role is to question and obtain detailed information concerning the governments use of funds and intended outputs with a view to being able to hold government accountable for their performance. Appendix 1 details the committees in existence for each jurisdiction.

The initial questions that need to be asked to determine the effectiveness of the estimates process are: what is the composition of the committee and what process is involved?

Across Australian jurisdictions there are five estimates committees located in the upper chambers, one in the lower and two in unicameral legislatures. Only South Australia has a bicameral legislature that operates estimates committees from the lower house. Generally, estimates committees are regarded as more effective or more probing when they are located in the upper chamber – especially where the government does not command a majority in those chambers.

The composition of estimates committees in Australia broadly follows one of two models. First some jurisdictions (such as the Commonwealth, NSW and Queensland) operate a fragmented or specialist system. This usually involves the jurisdiction establishing some five to eight separate estimates committees each of which has responsibility for selected portfolios. The advantages of this model are that it allows for more specialization, continuity and depth of investigation; and more parliamentarians can become involved in the scrutiny process (eg, around 48 from 76 Senators are involved in the estimates process federally, and 30 to 36 in Queensland from an Assembly of 89). Second, other jurisdictions operate a consolidated model in which one estimates committee (in Victoria, ACT, and Western Australia) or perhaps two estimates committees (SA and Tasmania) examine the entire budgetary estimates across the whole of government. Often these committees are standing committees with responsibility for economic and financial matters. The strength of this model is that it consolidates expertise in one or two bodies, while allowing parliament to proceed with other business and areas of interest to other committees. Consolidated estimates committees carry a heavier workload and may be restricted in the scope or depth of scrutiny.
As discussed below, Victoria has combined both scrutiny of the estimates with responsibility for reviewing the audit of government spending and performance. In effect this means that the Victorian joint committee stands as a standing or permanent accounts and estimates committee. In other jurisdictions, estimates committees are established as select committees and survive for a short time only (usually a matter of weeks).

The process involved in scrutinizing estimates varies between single and multiple hearings. For example, in NSW and Queensland committee hearings last for six to eight hours (usually two or three separate meetings each focusing on one portfolio). These hearings occur only once and there is no chance of supplementary hearings. By contrast, the provision exists in other jurisdictions for supplementary hearings to be held at which questions may be asked or additional information sought for which the committee has given notice. In some jurisdictions (eg ACT, the Senate) there is no limit to the amount of times a committee can recall witnesses (except that a final date is set for the completion of the committee’s report).

Estimates committees usually interrogate ministers and officials over detailed spending plans. A variety of practices exists over who answers particular questions. In the Commonwealth and ACT ministers may answer questions on policy matters, but officials answer detailed expenditure questions. In NSW and Queensland, portfolio ministers tend to head teams of officials appearing before their respective estimates committees. Ministers can elect to answer as many or as few questions as they wish, with each committee having a prescribed procedure for the asking of questions (eg initially 15 minutes for each of the government and opposition side with alternating opportunities thereafter). After the first 15 minutes there is no further opportunity for individual members to follow up issues if they are dissatisfied with the answers provided.

Often large amounts of supplementary information is collected on the record at hearings, either formally requested or emerging from the questioning.

It is important to note that while hearings are held in public, only parliamentarians can scrutinize the estimates. With the exception of the ACT, there is no provision for members of the public to lodge or ask questions or participate in the review in any capacity. Some jurisdictions (eg Queensland, the Senate) make provision for other parliamentarians (not formally members of the estimates committees) to attend hearings and question officials. However, while this does occasionally occur, it is rare.

Australian experience suggests that the effectiveness of estimates committees is limited when:

- the composition of the committee(s) is government controlled or answers to the government in the lower house;
- the committees cannot initiate their own inquires (where they require references from the house);
- the committees do not have the time or opportunity to explore topics in depth;
- the committees are not able to build expertise and continuity because they have high turnover of membership.
1.3.2 Scrutiny of Performance

Performance review is predominantly post-budget (reviewing actuals against performance) and primarily undertaken by public account committees. Estimates committees can potentially use performance information in probing proposed patterns of spending, but previously most did not because they were not provided with detailed and timely performance information. Surrogates were often used for performance (for example, capital underspends or alleged service delivery problems – such as increased waiting lists in areas of health). Often such information did not come from the material presented in the estimates review, but came from previous financial statements or occurred extraneously.

The integration of detailed performance information (intended targets/previous performance) with the review of estimates has begun, but is in its infancy. All jurisdictions use some form of portfolio budget and performance statement as supporting documentation to accrual budgets.

Three points can be made about the recent developments. First, a wide variety of performance reporting systems is found across the jurisdictions. For example, some jurisdictions and agencies tend to offer qualitative statements of intended performance with no detailed targets or quantitative measures attached. In others, like Queensland, ministerial portfolio statements contain quantitative targets relative to output allocations. Second, a narrow set of performance data tends to be presented – often reduced to five or six measures. The Commonwealth includes many programs or outputs in its portfolio statements for which there is no quantitative measures, although output performance information is meant to include quality, quantity and price. Many portfolio statements present detailed spending information divided according to organizational component or program. Third, many of the performance measures are activity-based indicators rather than effectiveness measures. And even the best performance information presented in the statements rarely contains much in the way of historical or comparative dimensions. Moreover, none of the budget-related statements contain any measures that are benchmarked or targets set from benchmarking exercises. To gauge the effectiveness of programs or activities, committee members would have to go outside the estimates process to obtain or construct longitudinal performance information.

Recently, at the Commonwealth level, a Senate review of budgetary information was held after complaints from members over the complexity and lack of clarity of accrual-based information with hearings held over July 2001. The review argued for clearer, performance-related information to be included in the portfolio budget statements. After last year’s budget (2002-3) it is still widely believed that one-third of the portfolio budget statements were informative and explicit about performance, one-third were in one official’s terms ‘hit and miss’, while the last third had made little progress in presenting performance information.

In some parliaments, steps have been taken to combine committee responsibility for both scrutinizing the estimates and reviewing performance. For instance, in NSW the five estimates committees each have terms of reference that permits them to ‘inquire into and
report on.. ‘expenditure, performance or effectiveness of any department of government, statutory body or corporation, any matter in any annual report of a department’. In addition, the NSW Public Accounts Committee still retains a ‘wide scope to review the efficiency, effectiveness and accountability of the State’s public sector’. In contrast, the Victorian parliament has structurally given responsibility to a single committee for both functions, establishing a composite committee in 1895 and making the examination of estimates, accounts and audit an on-going exercise. As the most consolidated example in Australia, Victoria has charged its Joint Committee of Public Accounts and Estimates with reviewing ‘all matters associated with the State’s financial management’ – both estimates and performance. The Victorian Joint Public Accounts and Estimates Committee also has a consultative role in the conduct of performance audits undertaken by the Auditor General.

1.4 The extent of proscription and discretion in the participation and scrutiny systems

After striking difficulties passing its tough 1993 post-election budget through the Senate, the Commonwealth experimented with a minor degree of budget consultation in 1994. The Keating government’s consultation involved sharing some budget-related information with the Australian Democrats (a minor party holding the balance of power in the Senate). The consultations took place prior to the tabling of the budget and concerned information on the likely parameters and economic projections. It was, in many respects, a briefing to the party whose support was needed to pass the appropriation bills. The consultations took place without involving the legislature, and neither the opposition nor backbench members of the lower house were involved in such consultations. The Democrats later complained that the consultation was perfunctory and that they had only been given general information. They had no input into any budget-setting or allocative decisions.

The ACT jurisdiction is the only one in Australia with any degree of public participation in budget allocation and the scrutiny of estimates. In each of the last three budget years, (beginning with its 2000-01 Budget) the ACT government has adopted a public consultative approach to the process of legislative authorization of its budget. The government claimed that community involvement was an important aspect of modern government and that the process of resource allocation should be open to community input through the legislature. The decision in late 1999 to trial a new system of consultation over the draft budget was taken by the Liberal administration (although the original idea dated from a Labor government in the early 1990s). The Liberal’s decision to adopt a consultative approach was no doubt driven by the perceived need to win community and legislative acceptance of its spending proposals. At that stage the Liberals led a minority government and was not in coalition – which meant it required the support of one independent or minority party member to pass all legislation. Some have argued that the executive chose to conduct its consultation (and any trade-offs) in public because it sought to maximize the promotion of its budget initiatives in the lead up to
the next election (it could, after all, have chosen to conduct negotiations behind closed doors). Clearly, the fact that the ACT legislature (chosen by proportional representation) is one with a significant cross-bench membership, is one factor that has encouraged this development.

The ACT process combines both legislative involvement and community involvement. The ‘draft budget’ (called a discussion paper) is released in January (with indicative figures shown). In 2000 and again in 2001, this was formally sent to the five legislative committees for deliberation. Invitations were also issued to the public to have input with calls for submissions. In 2002 the process was varied slightly in that a new Labor administration chose not to refer the ‘draft budget’ to the legislative committees but instead invited them to consider it if they wished (ie, deliberation was made optional). Interestingly, the Labor party had opposed the consultative process over the ‘draft budget’ when in opposition during the first two experiments, but elected to continue the practice in its first budget in 2002. The new government did, however, reduce the amount of detail contained in the budget discussion paper. There has been vigorous debate in the Legislative Assembly over whether deliberation of the draft budget should be made mandatory or left optional. In 2002 even though it was optional for the committees to debate the budget document, all five legislative committees did, in fact, debate those aspects of the ‘draft budget’ within their areas of responsibilities.

In theory the legislature has a high level of discretion over the final framing of the budget (ie, there is no restriction over amending spending proposals or increasing/decreasing amounts). In practice very few spending allocations are actually changed although priorities within the proposed spending amounts are actively discussed. On one occasion (2001-02 budget) the amount proposed for the Australian Federal Police was increased above the draft budget figure in the final budget amount, because of complaints from two independents that insufficient was being allocated to law and order priorities. The ‘draft budget’ tends to attract general discussion of priorities and it is not debated ‘line by line’. Once the committees have discussed and reported on their findings, the final budget is prepared and once introduced this budget then is referred to the Assembly’s estimate committee for scrutiny. The main complaint from non-government members of the Assembly is that the government frequently does not include all its spending proposals in the draft statement but adds more or new ones at the final budget stage. This aspect, some feel, undermines the value of examining the ‘draft budget’ as it is an incomplete set of spending options.

The budget consultation process in the ACT has not been extended to the monitoring or scrutiny of performance. Potentially, the legislative committees which debate the ‘draft budget’ and collate public consultations have the opportunity to investigate subsequent performance data. However, a separately convened estimates committee exists to consider the entire final budget, and a separate public accounts committee also exists. Thus, the ACT system is tri-furcated, with only one committee (public accounts) likely to explore performance information in detail. Arguably the presentation of a general discussion paper as a ‘draft budget’ has not increased the legislature’s examination of performance data. One party in the Assembly (the Greens) has included in their party platform a proposal to establish a ‘permanent estimates committee’ which operates as a standing estimates committee able to investigate budget estimates all year round (similar to the Victorian public accounts and
estimates committee). But neither the Labor or Liberal parties thus far support this suggestion.

We have classified the ACT as primarily ‘representative model II’, although there are some elements of a ‘consultative model’ in that the jurisdiction formally invites submissions to its ‘draft budget’.

1.5 The levels and nature of public involvement in the process

Most governments in Australia do not have a formal budget submission process for community groups or the general public. The Hawke Labor government in the 1980s did experiment with a formal budget submission process aimed at the larger interest groups and other governments (eg local). These submissions were for a number of years collated and summarized and published as part of the budget lead-up by the government’s Economic Planning Advisory Council (EPAC) (summaries of community submissions were discontinued in 198x). EPAC has also published (separately from the government) an occasional overview of budget issues (entitled ‘strategy for the 19xx budget’), which discussed broad directions in revenue and expenditure trends and some budget parameter issues. This process was discontinued in 1995.

Community involvement in other states is not a formal part of the budget process, but occasionally community groups will make submissions to government unilaterally (sometimes these receive some publicity and are seriously considered inside government by the budget actors. More common is the practice of meeting with senior ministers to solicit support for particular budget measures or relief from some impost of taxation.

Only in the ACT is community input a formal and encouraged part of the budget formulation process. The government now writes formally to 47 local community organizations and publishes advertisements in the local papers with invitations to the general public to make submissions. These submissions are then considered both by the respective legislative committee and the government as a whole. So far many community organizations have taken the opportunity to lodge submissions, as have a few individuals.
1.6 Evidence on the practical implementation of such processes, including variances and unexpected outcomes, notable successes (or failures), critical incidents or other relevant empirical data

The ACT model is the closest to the process followed in Scotland. The immediate practical issue facing the ACT legislature was to build support and commitment for the new process among the Assembly members. The legislative committees have reviewed the ‘draft budget’ in each of the three years the consultative process has operated, although this has not delivered increased support. They have somewhat actively reviewed priorities and reported back to the whole Assembly. There is anecdotal evidence that the main departments of the ACT government have taken note of these debates over the focus of priorities. For example, in 2000 the issue of prioritizing the maintenance of bikeways became a significant issue that attracted much community comment and discussion.

Only rarely have variations in proposed allocations been made, and these have tended to originate in bi-lateral bargaining with independents rather than through the legislative committees. But certainly, the members and wider community are provided with some advanced knowledge of likely government intentions, and this may allow them to bargain from an indicative basis earlier in the process. The government has responded to this by including less detailed information in the 2002-03 discussion paper.

Critics have portrayed the ACT’s consultative process as an example of political window-dressing. Some policy advisers have regarded the process as unwieldy and serving the government’s interests rather than the community’s. Although some community groups went to considerable effort in making submissions it was not clear what effect or benefit this had had. Media critics in Canberra also accused the government of ‘milking the draft budget process for electoral gain’ (Singleton 2001: 585). Journalists considered the consultative process was undertaken ‘to maximize exposure of Budget initiatives, rolling out leaks and announcements to the point where it became almost farcical’ (Armitage 2001). She felt that the process had created more divisions in the Assembly, and that the government had ‘done nothing to promote goodwill, or confidence in the process’.

1.7 Reasons for main differences with Scotland (including where necessary any administrative, cultural or other differences).

The ACT model has developed out of a small unicameral legislature (17 members) with the prospect of few majority governments ever holding office under the proportional representation electoral system. Consequently, members of the Assembly have had to experiment with new schemes and relationships to enable them to interact in order to form workable government. There have been a number of prominent members elected to the Assembly that have sought more community engagement and involvement in the operations of government. Their ideas were premised on the notion that the community ought to be more involved in the decision-making processes of government rather than restricted to the scrutiny of government decisions and actions. These individuals have influenced the culture of the
ACT government although this has not necessarily translated into widespread legislative support for the consultative budgetary process.

It should also be noted that the ACT is essentially a city-state government responsible for Canberra – a relatively affluent administrative capital city. It is also one of Australia’s academic and cultural centres with over 25% of its workforce with university degrees (almost twice the national average). The ACT government has a smaller number of government departments (5) than most other sub-national governments in Australia.

### 1.8 Recommendations

Increased legislative and community involvement in budgetary allocation and priority setting raises a fundamental issue concerning our political systems. Are budgets an executive instrument and an integral component of government activity or are they to be seen as developed by the legislature as a whole? This issue needs to be resolved and those actors involved become committed to the resolution.

The ACT model has survived because legislative committees rather than an estimates committee have been able and willing to debate broad parameters of spending and intended government priorities. The estimates debates have been separated from the budget consultative phase and a different committee (possibly consisting of some but not all the legislators) is able to scrutinize the final budget later.

The ACT has actively attempted to raise community awareness about the budget and government priorities. Governments of different persuasions have both been pro-active in encouraging community group input, although it is not as yet clear from the ACT experience what feedback or returns on their investment these community groups have received. Community commitment to the process may tire over time especially if the process loses credibility. The long-term buy-in by the community may be problematic.

The ACT has also adopted a convoluted and fragmented process of reviewing its budgets and evaluating performance. Three sets of committees in the legislature are involved in this process: 5 legislative committees, an estimates committee and a public accounts committee. Arguably, a more consolidated committee structure, perhaps with a single specialist public accounts and estimates committee, would be preferable.
### 1.9 Possible Models of Consultation in Budget-making

<table>
<thead>
<tr>
<th>Model</th>
<th>Features</th>
<th>Extent of Legislative Participation</th>
<th>Extent of Public Participation</th>
<th>Jurisdictions to which the model applies</th>
<th>Advantages / disadvantages of each Model</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Closed Model</strong> (Budget is secret until delivered)</td>
<td>Executive frames the budget and presents in toto to the Legislature – the Executive’s financial initiative is maintained (and is a confidence issue)</td>
<td>Limited to post hoc scrutiny</td>
<td>Able to make pre-budget submissions (sometimes this is formalised); public lobbying</td>
<td>Australian federal government used a formal pre-budget submission process 1984-88 (publishing a summary of submissions through EPAC) but was discontinued when Executive perceived it was not achieving anything tangible from the process</td>
<td>Adv: input from major interest groups within the government’s announced budgetary framework; sharing of some pre-budget information; Disadv: A formal submissions process may heighten expectations; more time-consuming; can appear symbolic or cosmetic; and may depart from the Executive’s agenda.</td>
</tr>
<tr>
<td><strong>Representative Model I</strong> (post-Budget legislative scrutiny of estimates)</td>
<td>Executive frames the draft budget which is presented to legislative committees for consideration – the financial initiative is maintained and is a confidence issue</td>
<td>Budget estimates are presented to formal estimates committees which can examine the proposed estimates but are not able to amend the budget</td>
<td>Limited to public discussion of draft budget; any influence is through MPs; reception and media debates may lead to some amendments</td>
<td>UK; Canada; Australian federal government and most Australian states (NSW, Victoria, Queensland,</td>
<td>Adv: able to gain greater detail on spending; ask questions of ministers and officials; seek information regarding outputs. Disadv: can be theatrical and largely be pre-organised; government backbenchers may show limited enthusiasm.</td>
</tr>
<tr>
<td><strong>Representative Model II</strong> (post-Budget legislative examination and possible amendment)</td>
<td>Executive’s draft budget is presented to portfolio legislative committees for examination and possible amendment before passage of the Budget – financial initiative is partly shared although final Budget</td>
<td>Legislative committees are able to examine the ‘draft budget’ and make suggestions for amendments and to discuss priorities within spending allocations</td>
<td>Limited to public discussion of the draft budget, but there is more public opportunity to have meaningful input and influence priorities - the legislative committees can</td>
<td>Australian Capital Territory government (2000-2002 – but committee involvement (legislative committees) was optional in 2002; a separate estimates committee scrutinizes the final budget</td>
<td>Adv: can build support for the budget when the government is in minority; can increase legislative input and give more say to legislators over priorities. Disadv: requires committees to have access to resources; requires considerable time to allow the process to work; government can cynically manipulate the</td>
</tr>
</tbody>
</table>
remains a confidence issue. be pro-active in seeking community input.

### Consultative Model I (community consensus)

| Executive’s spending priorities often with caps is presented to the community for deliberation and input; these proposals are not formally referred to legislative committees | Minimal; the legislature would resume estimates debates (either in committees or whole) after community consultation and comment | Potentially high; debates mainly focus on identifying priorities within spending portfolios | Federal German budget

### Consultative Model II (negotiated consensus)

| Executive’s spending priorities with caps is presented simultaneously to both legislative committees and the community for input; the community can make submissions either to the government as a whole or to the legislative committees; the committees can sift or consolidate community responses. | Legislative committees are able to examine the draft budget with the benefit of input from the community and report making suggestions for amendments or discussing priorities within spending allocations; committees may be required to indicate the extent to which community priorities have been included in their report. | Potentially high; legislative committees can operate a formal submission process from the community and be pro-active in seeking input on identifying priorities within spending portfolios | Closest to the Scottish model; the 2002 ACT government formally wrote to 47 community organisations and placed advertisements in the media (but legislative committee involvement and reporting was optional)

Adv: educative function; shared community understanding; can enhance political credibility

Disadv: requires longer timeframe and planning; risks low level of public involvement or input.

Closest to the Scottish model; the 2002 ACT government formally wrote to 47 community organisations and placed advertisements in the media (but legislative committee involvement and reporting was optional)

Adv: educative function; shared community understanding; can enhance political credibility; committees can serve to increase community input.

Disadv: requires longer timeframe and planning; the executive may feel it has lost control of the process.

NB: advantages and disadvantages are taken from a legislative viewpoint.
## APPENDIX 1
Summary of Parliamentary Committees dealing with Finances

<table>
<thead>
<tr>
<th>Comm: Estimating Process involving legislative scrutiny</th>
<th>NSW</th>
<th>Victoria</th>
<th>Queensland*</th>
<th>ACT*</th>
<th>SA</th>
<th>WA</th>
<th>Tasmania</th>
</tr>
</thead>
<tbody>
<tr>
<td>Senate</td>
<td>√</td>
<td>√ upper house</td>
<td>√ upper &amp; lower houses (single estimates com’tee)</td>
<td>√ lower house</td>
<td>√ lower house</td>
<td>√ lower house</td>
<td>√ upper house</td>
</tr>
<tr>
<td>(8 estimates com’tees)</td>
<td>(5 estimates com’tees)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Public Accounts Committee – able to review performance</th>
<th>√ Joint com’tee JCPAA</th>
<th>√ lower house PAC</th>
<th>√ Joint com’tee PAC</th>
<th>√ lower house PAC</th>
<th>√ lower house PAC</th>
<th>√ lower house EFC</th>
<th>√ joint com’tee</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Separation of estimates process from public accounts process</th>
<th>Yes</th>
<th>Yes</th>
<th>No, joint PAC does both</th>
<th>Yes</th>
<th>Yes</th>
<th>Yes</th>
<th>Yes</th>
</tr>
</thead>
</table>

| Public Works Committee | √ joint com’tee | √ lower house | X | √ lower house com’tee | X | √ lower house com’tee | X | √ joint com’tee |
|---|---|---|---|---|---|---|---|

<table>
<thead>
<tr>
<th>Which committees review performance</th>
<th>Joint Public Accounts and Audit, plus other general standing committees</th>
<th>Public Accounts &amp; Estimates com’tee</th>
<th>PAC</th>
<th>PAC also legislative com’tees can review performance</th>
<th>EFC</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Other financial parliamentary committees</th>
<th>Finance and Public Admin in Senate; and Economics, Finance and Public Admin in Reps **</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>X</th>
<th>Public Admin and Finance com’tee in upper house</th>
<th>X</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>Does the Legislature and/or committees invite public consultation in the estimates process</th>
<th>No</th>
<th>No</th>
<th>No</th>
<th>No</th>
<th>Assembly invites submission which go to the legislative committees</th>
<th>No</th>
<th>No</th>
<th>No</th>
</tr>
</thead>
</table>

---
*these legislatures operate with a unicameral system of Parliament.

** The Western Australian Parliament abolished its separate estimate committee in 2001 (the Legislative Council Standing Committee on Estimates and Financial Operations 1989-2001) and replaced it with ..

*** The House of Representatives (Procedures Committee) is currently reviewing whether to re-establish a House Expenditure Committee. Previously a separate House Expenditure Committee existed from 1976-1981.
APPENDIX 2
Example of Performance Target Setting under Queensland’s Managing for Outcomes Framework

Emergency Services Portfolio (includes Fire, Ambulance, Emergency, Counter-Disaster Management)

Output: Counter Disaster and Rescue (sub output for Disaster Management Services)

The output statement in the Ministerial Portfolio Statements includes a brief description of the services provided, a review of output performance (recent achievements), and a list of intended future developments. This information is condensed into around two pages. The following table indicates the performance targets established under this sub-output, how well they were met and how they changed over time.

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Intended number of exercise hours</td>
<td>14-38</td>
<td>56</td>
<td>35-45</td>
<td>45</td>
<td>35-45</td>
<td>50</td>
<td>35-45</td>
<td>230</td>
<td>150-200</td>
</tr>
<tr>
<td>Number of people receiving training in disaster management</td>
<td>300-500</td>
<td>1985</td>
<td>500-1,000</td>
<td>1,300</td>
<td>1,200-1,500</td>
<td>1,600</td>
<td>1,500-2000</td>
<td>1,600</td>
<td>1,500-2000</td>
</tr>
<tr>
<td>Community disaster awareness and educational activities</td>
<td>10-15</td>
<td>33</td>
<td>15-25</td>
<td>40</td>
<td>40-50</td>
<td>16</td>
<td>40-60</td>
<td>350</td>
<td>250-350</td>
</tr>
<tr>
<td>Number of local and community risk assessment studies</td>
<td>-</td>
<td>-</td>
<td>20-30</td>
<td>3</td>
<td>25</td>
<td>44</td>
<td>86</td>
<td>55</td>
<td>92</td>
</tr>
<tr>
<td>Number of local and state plans developed or reviewed</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>5-15</td>
<td>110</td>
<td>105</td>
</tr>
<tr>
<td>-----------------------------------------------------</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>---</td>
<td>-----</td>
<td>-----</td>
<td>-----</td>
</tr>
<tr>
<td>Level of stakeholder satisfaction</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>60</td>
<td>78%</td>
<td>65%</td>
<td>78%</td>
<td>70%</td>
</tr>
<tr>
<td>Budget allocation ($'000)</td>
<td>5,887</td>
<td>7,116</td>
<td>7,218</td>
<td>11,439</td>
<td>8,539</td>
<td>7,775</td>
<td>8,715</td>
<td>7,835</td>
<td>7,938</td>
</tr>
<tr>
<td>Other revenue ($'000)</td>
<td>929</td>
<td>918</td>
<td>1,653</td>
<td>1,161</td>
<td>1,168</td>
<td>1,966</td>
<td>2,740</td>
<td>3,111</td>
<td>3,023</td>
</tr>
<tr>
<td>Total cost of output ($'000)</td>
<td>6,816</td>
<td>8,034</td>
<td>8,598</td>
<td>12,341</td>
<td>9,451</td>
<td>9,777</td>
<td>11,038</td>
<td>10,591</td>
<td>10,608</td>
</tr>
</tbody>
</table>

NB. The increase in exercise hours in 2001-02 was due to Queensland hosting CHOGM. The figure for the Community disaster awareness and educational activities jumps considerably in 2001-02 actuals, and is reflected in higher targets for 2002-03. This increase was due to ‘a review of performance measure collection methods has resulted in more accurate reporting of these activities’ (State Budget 2002-03: Ministerial Portfolio Statements: 14).
2. Case Study Report - New Zealand

Susan Newberry and June Pallot
University of Canterbury
New Zealand

2.1 Introductions / Comparison with Scotland

New Zealand, with a population of 3.96 million\(^1\), is of comparable size to Scotland. It has inherited much of its culture from Scotland (many New Zealanders have Scottish ancestry) and the ties between the two countries have always been strong. New Zealand is a constitutional monarchy with the British monarch, represented by the Governor-General, as titular head of state. Since the abolition of provincial government in 1876, New Zealand has had a unitary government modelled originally on the British system (independence from Britain was established in 1906). It also has a unicameral legislature following the abolition of the Upper House in 1951.

Until recently, New Zealand was accorded something of a special status among the world's democracies as one of the “purest” examples of the Westminster model of government, a model of virtually unrestrained executive authority with an electoral system, which in some ways was “more British than Britain”. In 1996, the first-past-the-post electoral system, typically dominated by one political party (although major policy differences with its major opposition party were often difficult to discern) was replaced by mixed-member proportional (MMP) representation. Under MMP, coalition governments have become the norm. The parties currently represented in parliament, following the July 2002 election are: Labour (52); National (27); New Zealand First (13); ACT (9); Green (9); United Future (8) Jim Anderton’s\(^2\) Progressive Coalition (2). Labour currently operates a minority government in coalition with Jim Anderton’s party with the options of turning to United Future to pursue centre-right economic policies and the Green party for support on liberal social policies.

Since the mid 1980s New Zealand has been considered a frontrunner in public sector management reform and it now has over 12 years of experience with what is referred to in the UK as Resource Accounting and Budgeting (RAB). This is a sufficiently long period of time for the benefits and problems associated with RAB in practice to have emerged. A case study of New Zealand can therefore provide some useful lessons and warnings for Scotland. The change of electoral system is also an interesting feature with some implications for budget setting and financial scrutiny. Since much about the New Zealand financial management

\(^1\) Statistics New Zealand current population estimate for September 2002 quarter.

\(^2\) Jim Anderton was Deputy Prime Minister and leader of the Alliance party in the 1999-2002 Labour-Alliance coalition government.
reforms have been well documented elsewhere, this report concentrates on less publicised aspects plus more recent developments and research findings. Unless otherwise stated, information is drawn from cited legislation, Standing Orders of the House of Representatives, cited reports by the Audit Office, Treasury and State Services Commission, Treasury files obtained by the authors under the Official Information Act, and interviews with knowledgeable parties conducted for purposes of this case study.

2.2 Process of budget and performance target setting financial management and control


The State Sector Act 1988 made chief executives responsible for performance and assigned to the State Service Commission the responsibility for reviewing this performance.

The Public Finance Act 1989 determines the way Parliament votes appropriations and specifies how the Crown, government departments and Crown entities report on their intentions and results. Appropriations and accounting are on a full accruals basis centred on outputs. For the Crown, external reporting includes a set of financial statements on a full accruals basis which is more comprehensive than is found in the private sector and which includes a statement of commitments and a statement of contingent liabilities. The departmental financial statements are also comprehensive and include a Statement of Service Performance (interpreted as non-financial information on outputs) which must be audited along with other financial statements.

The Fiscal Responsibility Act 1994 is the main legislation governing the overall budgeting process. It sets out principles of responsible fiscal management: ensuring operating surpluses until State debt falls to ‘prudent levels’; maintaining zero operating balances on average over time, once prudent levels have been reached; achieving and maintaining sufficient net worth to act as a buffer against adverse impacts in the future; prudent management of fiscal risks; and, predictability in the level and stability of future tax rates. Information that governments must supply includes a budget policy statement, a fiscal strategy report and a series of regularly updated economic and fiscal forecasts, including one prior to a general election. This information is complemented by monthly Crown financial statements.


4 The monthly Crown financial statements do not contain a statement of commitments nor (aside from the month of December) a statement of contingent liabilities despite the claims that were made about their contribution to greater transparency in the annual financial statements.
The legislation, in particular the Public Finance Act, has delegated significant secondary regulatory powers to the Minister responsible for the Act (the Minister), the Treasury and the Governor-General. Superficially, the government departments and Crown entities operate as if they entities are separate from the Crown, but chief executives must comply with the legislation, and the legislation requires that they comply with any lawful instructions given by those with delegated secondary regulatory authority. The use of these delegated powers has resulted in the creation of a complex layer of secondary regulation.

The Minister may decide on the bank or banks at which the Crown bank account and departmental bank accounts will be operated, and either the Minister or the Treasury may direct the terms and conditions under which those bank accounts operate, obtain information, issue instructions regarding the public money held and transfer money between the accounts. Subject to the provisions of the Act and any other regulations made under the Act, the Treasury may issue instructions to departments for any of the following purposes: for obtaining information to enable the Treasury to fulfil any functions imposed on it by the Government or any Act; for prescribing the accounting policies to be adopted by departments, for regulating the management of public money, or for regulating the "accounting and financial management and control procedures relating to contracts of the Crown" and the "custody and control by the Crown of public securities".

A further delegation of secondary legislative powers arises from the commitment in the Act to adopt generally accepted accounting practices (GAAP). The Financial Reporting Act 1993 established a Crown entity, the Accounting Standards Review Board, to determine what is GAAP for both the public and private sectors. The relevant secondary regulation issued via these delegated authorities is covered in the explanation of the budgeting and financial management system.

2.2.1 The Budget Cycle

The financial year for the New Zealand government commences on 1 July. Prior to the introduction of MMP, concern had been expressed that, in the absence of a parliamentary majority, a government might have difficulty in maintaining supply. This creates pressures for an earlier budget but has to be weighed against problems that an earlier budget might pose for the reliability of fiscal forecasting. In the event, the budget process does begin much earlier than in the pre-1989 times.

In December the Government publishes the Economic and Fiscal Update which includes the latest information on economic and fiscal forecasts for the current and following three years. In the latter part of the calendar year, Ministers and Cabinet decide on and prepare the key themes and priorities for the following year’s budget. Decisions taken during this strategic phase are reflected in the Budget Policy Statement (BPS) which establishes the overall parameters for the budget and is required to be published no later than 31 March.

---

5 For more details, see New Zealand Treasury Putting it Together www.treasury.govt.nz/publicsector/pit/
These overall parameters, which include fiscal targets for net debt and total expenses, both expressed as a percentage of GDP, are linked to the detailed budget process via a set of rules which are encompassed in a Cabinet Office Circular known as the “Guidelines for Changes to Baselines”. These guidelines function as a control mechanism which sets an upper limit on the total amount of resources available, including the amount available to each department. Only after compliance with this control process is the budget converted to fit the language used to describe the budget process, that of an output purchasing process. The Budget must be presented by 31 July each year; in practice, it is may be presented in May or June.

2.2.2 Statements of Intent (SOIs)\(^6\)

In December 2001 Cabinet agreed to a significant change in the way departments manage their business\(^7\). The initiative requires departments to adopt a more strategic and ‘outcome’ focused approach to planning, management and reporting instead of focusing primarily on financial performance and outputs within a one year time frame. While previous governments had attempted this through ‘strategic result areas’ (linked to key result areas in chief executive performance agreements)\(^8\) or ‘strategic priorities and overarching goals’, these ancillary statements were first developed as tools to be used within the Executive, were not regulated, and were generally not measurable.

As part of the new approach, departments are to develop Statements of Intent (SOIs) to document their planning and their chosen outcomes and outputs. There are two components to an SOI: a long-term component providing a succinct 3-5 year picture of outcomes and means to achieving them and an annual statutory component meeting the minimum requirements of the Public Finance Act; in particular performance information about output classes that the department intends to produce in the coming year. However, the initiative is not supposed to be about the production of a document but rather about improving the information available for effective management of the department. While chief executives will not be held accountable for achieving outcomes, they will be held accountable for ‘managing for outcomes’ and for effective delivery of outputs. Fifteen departments participated in the first pilot phase in the lead up to the 2002 budget. The remainder of the departments are about to adopt the approach for the 2003/4 budget. This is not intended to be a “one size fits all” initiative and departments are to decide for themselves which areas require most focus in the planning process and how best to structure their SOI.

The SOIs are expected to be in plain language and “tell a compelling story” that identifies the outcomes to be pursued, the outputs to be produced, why those outcomes and outputs are

---


\(^7\) Cabinet Decision on Roll-Out of New Planning Expectations and Statements of Intent (CAB Min (01) 38/6A)

chosen as opposed to others, how risk and uncertainty will be managed, the capability required to deliver the outputs to pursue the outcome and how departments will know they are making a difference. This comprehensive approach to strategy formulation and performance measurement addresses a number of the issues raised by the Audit Office in its 1999 report *The Accountability of Executive Government to Parliament* and the performance measurement approach advocated in its 2001 report *Reporting Public Sector Performance*. SOIs replace departmental forecast reports for all departments from the 2003 budget. Guidance about how annual reports should report against the SOI is expected to be issued in December 2002.

2.2 **Central Agency and Parliamentary scrutiny**

The processes of review within the Executive include both SSC review and Treasury review. The State Sector Act delegated to the State Services Commission the authority to review the efficiency, effectiveness and economy of each department; and to review what is known as the machinery of government, specifically the allocation of functions across departments, as well as the need for the various departments and the coordination of their activities. The Treasury’s role in reviews received no mention in either the State Sector Act or the Public Finance Act, this being considered an oversight, although the Treasury takes responsibility for a second opinion function which seems, at times, to have been controversial.

The Treasury and the State Services Commission devised a major review process known as an output price review which allowed a department’s budget baseline to be reconsidered. However, severe financial stress was required before such a review would be undertaken, and differences of opinion arose over the actions to be taken following any such review. This review process appears to have lapsed, and a potential replacement is a more regular review process, the value-for-money review embedded in the budget process and, therefore, monitored by the Treasury. Only after these review processes, and any changes made arising from those reviews, would information be available for parliamentary and select committee review.

Parliamentary scrutiny lies primarily with subject select committees which have responsibility in their respective subject areas for scrutiny of legislation, estimates examination, financial review, initiating inquiries and considering petitions. The overall membership must be, as far as is reasonably practicable, proportional to party membership in the House. Unless the House determines otherwise, each committee consists of eight members. The chairperson and deputy of each committee are elected by its members.

---

9 The subject select committees are: Commerce; Education and Science; Finance and Expenditure; Foreign Affairs, defence and Trade; Government Administration; Health; Justice and Electoral; Law and Order; Local Government and Environment; Maori Affairs; Primary Production; Social Services; and Transport and Industrial Relations. There is also an Officers of Parliament committee which performs equivalent functions with respect to officers of parliament that subject committees perform for government departments and crown entities.

10 Standing Orders 1999 # 187
Scrutiny of the budget policy statement (BPS) is by the Finance and Expenditure Committee (FEC) which can require the Minister responsible for the Budget to attend. The FEC makes a report to the House within six weeks of the publication of the BPS at which time it is debated, along with the FEC report on it, by the whole House\textsuperscript{11}.

The playing of a greater part by Committees in pre-budget scrutiny of the Government’s spending plans has been suggested. This could be achieved by the BPS being made available to each subject select committee for scrutiny of elements relevant to its subject area. However, the idea of wider pre-Budget scrutiny was not pursued on the grounds that the overview nature of the budget policy statement does not lend itself to such in-depth scrutiny\textsuperscript{12}. Apart from the FEC scrutiny of the BPS, and any subsequent debate on its report, there is no parliamentary involvement in the budget process prior to the publication of the Budget and review of the accompanying Estimates. The SOIs are to be classified as “Budget Sensitive” until tabled on Budget day and departments will be responsible for keeping them secure.

Select committee examination of Estimates is the central step in Parliament’s consideration of the Crown’s budgetary proposals for the year and its decision on whether to agree to the proposals and to grant supply. Following the delivery of the Budget, the Estimates stand referred to the FEC which may examine a vote itself or refer it to any subject select committee for examination. Each select committee must report to the House on those estimates allocated to it for examination within two months of the delivery of the Budget. The process for consideration of the Supplementary Estimates is similar to that for the main estimates.

The accountability procedures of the House include a requirement for select committees to conduct, each year, a financial review of the performance of each individual department and each office of Parliament based upon their annual reports. The result of these reviews must be reported on or before the first sitting day of the following year. The responsibilities of the FEC with respect to financial reviews are similar to those for the Estimates. In addition, reviews are undertaken of the annual performance of State enterprises and the performance and current operations of Crown entities listed in the 6th schedule to the PFA, including those that did not receive an appropriation of public money. These reviews are based on their annual reports, statements of corporate intent and other documents presented to the House. In each case the committee is required to report the result of its review back to the House within six months of the annual report being tabled in the House.

Another important component of the parliamentary scrutiny process is the work of the Auditor-General/Audit Office. The Public Audit Act 2001 (PAA) formally established the Auditor-General and Deputy Auditor-General as Officers of Parliament and brought all public entities under the Auditor-General’s mandate which is applied consistently across the public sector. Activities identified in the PAA are: financial report audit (conventional attest audits),

\textsuperscript{11} The FEC is similarly responsible for scrutiny and reporting on economic and fiscal updates.

performance audit (several existing types of activity including “effectiveness and efficiency audits” and the examination of issues of compliance, waste and probity), and inquiries (responses to matters of concern raised by taxpayers, ratepayers or politicians about financial, accountability and governance issues in the public sector).

The PAA makes the appointment and funding of the Auditor-General the responsibility of Parliament, consistent with arrangements for the other Officers of Parliament. The ability to act independently, without direction or improper influence, is balanced with the need for the Auditor-General to have a sound working relationship with, and accountability to, Parliament. At least 60 days before the beginning of each financial year, the Auditor-General is required to submit a draft annual plan, including the proposed work program for the year and financial report, to the Speaker. The Speaker and parliamentary committees may make suggestions about, but cannot direct, the Auditor-General’s work program. This is consistent with practice in the UK, Canada and Australia. However, the Auditor-General must make public in the completed plan any changes to work priorities which have been requested by the Speaker or select committee but which have not been included in the plan.

The select committees receive considerable assistance from the Audit Office in their scrutiny of estimates and performance. This assistance includes: advice on the form and content of any standard questionnaires or other standard material to be used by committees in their examinations or reviews; written or oral advice to assist a committee in determining its questions; review of evidence given during the committee’s examination or review; and support in compiling the committee’s report to the House. To maintain expertise in specific areas, the Office of the Auditor-General has a number of sector managers with responsibilities for advising a portfolio of select committees. The Audit Office also has expertise in, and can provide advice on, technical accounting and financial management matters, including the interpretation of financial statements.

The advent of MMP appears to have resulted in a wider range of views being expressed within select committees, freer and better informed debate and more inquiries initiated.

2.3 Executive discretion/ Limitations on Parliamentary Scrutiny

As outlined above, a major part of the budgeting and financial control process occurs within the Executive and so is not available to the participation and scrutiny systems. To the extent that information is available for scrutiny, the requirement that departments each operate their own bank accounts in combination with the movement to accrual appropriations appears to have increased the complexity of information scrutinised whilst the reporting requirements and New Zealand’s relatively large number of departments as a result of structural reform, have increased the volume of information. One matter arising from this increase in complexity (and one which does not seem to be well understood) is that parliamentary
approval of accrual appropriations does not necessarily mean that departments will receive the money with which to meet the costs appropriated.

Over the last decade there has been a reduction in the time allocated for parliamentary review. Parliament’s standing orders were changed in 1992, 1996 and 1999, reducing the time available for parliamentary scrutiny and debate each time14. The parliamentary time allocated was changed from days to a specified number of hours in 1992. For the Estimates, the time was reduced from 13 days to twenty hours but, by 1999, had been reduced to eight hours. Similarly the time for financial review was set in 1992 to ten hours but by 1999 had been reduced to four hours. It is not clear whether this has been compensated for by increased time in select committees, but even this would leave the scrutiny one step removed from the public.

Other areas where Parliament’s scrutiny and control of expenditure may be insufficient are in supplementary Estimates and in imprest supply. There have been instances of departments which did not properly forecast capital expenditure, but made commitments to it, with the result that it was rushed through in supplementary estimates at the end of the year with inadequate debate. The way in which Parliament currently provides imprest supply creates considerable latitude for the Executive. For example, new expenditure decisions that are taken immediately after the first Appropriation Act of the year has been passed may not be validated by an Appropriation Act for many months15. The Audit Office has suggested that a distinction be made between expenditure on activities that have already been approved in an Appropriation Act and new initiatives. Imprest supply could be applied to the former but the latter would require parliamentary debate and, if appropriate, prohibition.

A surprising feature of the reformed financial management system is its lack of clear definition of crucial terms. Whether these ambiguities in the financial management system matter in practice may be open to debate but it does increase the discretion available to the Executive (in particular, the Minister of Finance and the Treasury) and there may be some constitutionally important principles involved.

The Public Finance Act contains an ambiguous interpretation of the Crown. First, it interprets the Crown as “her Majesty the Queen in right of New Zealand and includes all Ministers of the Crown and all departments”, but then it distinguishes between the Crown, ministers and departments. The effect of this ambiguity is that departments and ministers seem to be regarded as both part of and separate from the Crown. This ambiguity provides scope for selective interpretations. Just one example of a selective interpretation relates to the authority to issue public securities. The Public Finance Act states that the Crown may not issue public securities (public debt) of any type without an Act of Parliament, but allows the Minister, acting on behalf of the Crown, to do so and allows departments to issue one form of public


15 For a discussion of this issue see Audit Office Third Report for 1999 The Accountability of the Executive to Parliament, chapter 7.
security, agreements to purchase goods and services. Although some delegated powers are essential for practical purposes, it must be noted that public private partnerships (PPPs) typically are constructed as agreements to purchase goods and services.

The control of appropriations provides the means for parliament to exert control over the executive government but there is no legislated interpretation of the term “appropriation” and, with the move to accrual appropriations, two interpretations have developed. One interpretation is that an appropriation simply grants permission to incur expenditure or expenses; another is that an appropriation consists of both permission to incur expenditure or expenses and the handing over of money which may cover some, or all, of the permitted amount. Selective interpretation of appropriations may mean that parliament does not fully understand exactly what it is granting when it grants appropriations and give to the Treasury and the Minister considerable discretion with their powers to shift money between bank accounts.

A further ambiguity is that, although publicly New Zealand’s financial management system is promoted as a full accrual system, closer scrutiny reveals some ambivalence and that the system is a selective mix of accrual and cash based accounting ideas.

### 2.4 Public involvement

Given there is minimal direct select committee input into the process leading up to the publication of the BPS, there is also minimal public input at this stage. New Zealand, however, does not have the highly closed and secretive type of policy and budget setting process found in Whitehall/Westminster because MMP has changed the dynamics of policy making. Under MMP, a single party is unlikely to have a majority in the House, or in select committees, and the policy stances and priorities of all political parties, even very small ones, have to be taken into consideration. Priorities need to be debated and agreed in establishing coalitions or other arrangements for forming a government. Officials, in producing their advice, consult with politicians from a much wider range of parties. Thus the views of a range of parties, and public comment in the media on these policy stances, is informally taken into account in arriving at the BPS. The publication of the BPS, and the FEC’s consideration of it and subsequent debate in the House provide ample opportunity for public discussion of the overall policy directions. The content of the Budget itself, a few months later, therefore comes as little surprise.

Significant policy changes often require some new legislation or changes to existing legislation. NZ has a very extensive process for public submissions on bills being considered by, and inquiries being conducted by, by select committees. When a committee decides to seek submissions, it usually has advertisements placed in the public notices column of the major daily or relevant local newspapers. Information about matters under consideration and calls for submissions are also placed on the parliamentary website. Submissions are normally in written form and can be reinforced through oral presentation if invited by the committee.
The general public may attend hearings on submissions. The proceedings of a select committee or a subcommittee other than during the hearing of evidence are not open to the public and remain strictly confidential to the Committee until it reports to the House. The chairperson of a select committee may, with the agreement of the committee, make a public statement to inform the public of the nature of the committee’s consideration of a matter. The committee or sub committee may make its proceedings available to any person for the purpose of assisting in the committee’s consideration of a matter.

2.5 Implementation in Practice

There have been a number of studies extolling the virtues of New Zealand’s financial management system and those points will not be repeated here. Many of these studies are by the promoters of the reforms and tend to focus on the intentions of the primary legislation, rather than the actual implementation of the system under secondary regulation. In some cases the implementation has been inconsistent with the stated objectives of the primary legislation. In particular, erosion of resources, or running down of capability, has been widely observed the longer New Zealand’s financial management system has been in place. However, the mechanisms by which this occurred, or how it escaped parliamentary scrutiny have not been apparent. Accordingly, Newberry undertook a detailed analysis of the budgeting and financial management system in an attempt to explain these issues.

Thorough examination of the more detailed financial management rules developed via the delegated secondary regulatory authority revealed that the system, if considered from a technical accounting perspective, is somewhat inconsistent, and that it does indeed erode resources. However, when this system is considered in terms of supporting a political ideal that a government should not own either operations (providers) or assets, it then appears highly logical. Newberry concludes that it is highly possible that the system has been designed support a “New Right” political agenda by hidden technical means.

The reforming legislation contains the key concepts of this system, while the secondary regulation incorporates systematic biases which run down the capability of government operations by a continuous process of eroding their resources, prevent the purchase or replacement of assets and promote the disposal of existing assets. The key concepts are the fiscal targets required by the Fiscal Responsibility Act, and the distinction in the Public Finance Act between the government’s role as a purchaser of outputs and its role as an owner of operations. Outputs “purchased” from government-owned providers must be fully costed, and the idea promoted is that the government-owned providers should be able to exist in a manner similar to an idealised business operation, that is, solely on the amount paid to them

16 See Audit Office 1999, op.cit; Pallot submission to the Scottish Parliament op.cit.
for the purchase of their outputs, with that amount sufficient to allow the replacement of production-related assets. Departments have the delegated power via a permanent appropriation to purchase assets from within the departmental resources but the system operates to prevent this possibility.

The fiscal targets adopted by successive governments limit the size of the government by expressing total government expense as a percentage of GDP and net debt as a percentage of GDP. The total government expense target focuses attention on the purchase of outputs from providers, while the net debt target focuses attention on some (but not all) of the public debt. As described earlier these targets are linked via secondary regulation into the budget baselines guidelines regime specified by Cabinet Office Circular.

The total government expense target sets a maximum for government expenses as a percentage of GDP. Currently, that maximum is set at 35%. This target is converted to a dollar amount and linked via the counting framework to the rules for the detailed budgeting system which are included in Cabinet Office Circulars. Changes in GDP result in automatic changes to the dollar amount of the budgeted total expenses, but the total budgeted amount available for each department is held by the budget baselines regime to a maximum of a fixed and nominal amount. In effect, the budget baselines regime uses inflation to erode the purchasing power of the maximum budget amounts available for departmental outputs.

Other eroding processes arise from the idealised view of departments as businesses (providers of outputs) which compete with other businesses and exist on the prices received for their sales. Departments are assumed able to control all of their costs and required to pay any operating surplus to the Crown as owner. Two sets of pressures cause the eroding effects: upward pressures on departmental costs, and downward pressures on departmental resources.

Departmental costs must include a capital charge and depreciation expense, and both are imposed on the book value of assets. Land and buildings must be revalued regularly, and this revaluation requirement causes upward pressures on departmental costs because the increased book values increase the calculation base for both the capital charge and depreciation expense, while the capital charge calculation mechanism is biased high, further increasing the upward pressure and disadvantaging departments when their fully-costed outputs are compared with prices charged by other providers. These pressures have been exacerbated by the development of “good” costing guidelines which state that output costings should be analysed to lower levels by costing output components, and regular requirements to revise output and output component specifications to make them look like goods and services available in the private sector.

As part of the performance review process, departmental chief executives are expected to conduct regular comparisons with output components available from other providers as a means of demonstrating departmental efficiency. The Treasury’s value-for-money review process also requires this. In the event that other providers’ prices are lower than departmental full costs of either outputs or output components, contracting out pressures are applied. These pressures are based on a simplistic assumption of fully variable costs and apparently ignore
the deleterious effect on departments caused by inefficiencies of scale. Departmental fixed costs must be allocated across an ever-decreasing total of outputs, with the effect that the full cost of the remaining outputs increases. Thus forcing a downward spiral. Departments become increasingly unable to cope or, as observed in the 1999 report by the Audit Office, lose capability.

Other downward pressures on departmental resources derive partly from the requirement in the Cabinet Office Circular that departments should absorb non-output expenses from within their pre-existing resources. Non-output expenses are known as “other” expenses and may include significant costs such as the costs of restructuring. Another source of downward pressure on departmental resources comes from the idea in the Public Finance Act (s. 14) that any reported surplus belongs to the owner, that is, the Crown, and should be paid to the owner. For the purpose of determining the amount that should be paid to the owner, the Treasury has issued an instruction which overrides the PFA’s definition of operating surplus and under some circumstances requires payments to the Crown, as owner, even when the result reported is a deficit. The effect of both of these requirements is to exacerbate the departmental resource erosion process and to prevent departments from being able to replace their assets.

In addition to this process of running down departments, there is also a process of running down of assets. The fiscal target adopted for net debt focuses solely on sovereign-issued debt which roughly consists of financial liabilities offset by particular financial assets and is reported among the liabilities in the Crown balance sheet. In June 1994 net debt was 43% of GDP, and the net debt target sought a gradual reduction to below 30% of GDP. The target was then reduced to below 20% of GDP and by 2001, when net debt had been reduced to 17.5% of GDP, current projections indicated further reductions to 15.5% of GDP by 2006, and to 0% of GDP by 201018.

The projected achievement of net debt at 0% of GDP does not necessarily mean that the taxpayer is any less at risk of having to meet major public debt commitments. All public debt (or public security as defined in the PFA) is guaranteed by the taxpayer, but the net debt target excludes several forms of public debt. Pursuit of this narrow target encourages substitution away from the form of public debt that is the focus of this narrow target into the forms of public debt that are excluded from that focus. One important form of debt totally excluded from the net debt target is commitments, which are arrangements for the purchase of goods and services, exactly the form of arrangement used for the purchase of outputs and for public private partnerships (PPPs). The effect of this target is that it encourages substitution away from holding assets and towards the purchase of goods and services on credit, which includes operating leases. Commitments are preferred for two reasons: they may be less expensive (the high biasing incorporated in departmental costing requirements help to ensure that this is the case); and commitments do not “count” as borrowing and therefore they do not count against the net debt target.

---

2.6 Conclusion and Recommendations

New Zealand does not have the open parliamentary and public involvement in budget-making that is being advocated in Scotland. The latest SOI initiative is an attempt to improve the strategy and budget making process within the Executive and therefore obtain the most appropriate selection of outcomes and outputs across departments. It is not possible to ascertain how well this new approach will work in practice but given it is the product of a decade of evolution and experience in New Zealand, it is hopefully a significant step forward. Whether select committee and associated public input into the process leading up to the budget is also required, given the already heavy workload of committees in their existing functions, is debatable. The advent of MMP with the need to negotiate policies, the publication of the BPS well in advance of the Budget, and the debate on it and the accompanying FEC report, tend to counter previous tendencies for the Budget to be prepared in secrecy and haste.

There is little point in setting objectives or determining priorities, however, if there are insufficient resources to deliver them. It is also difficult to establish accountability if it is unclear whether an organisation had the resources to do the job required of it. The New Zealand case shows that there has been a running down of departmental resources, through the use of complex technical secondary regulations, which may not have been intended by Parliament. It is important to be aware that technical adjustments and ambiguous interpretations of “appropriations” could mean that what Parliament approves is not what departments and other agencies actually have available to them. To scrutinise whether departmental resources are being maintained, it is necessary to consider trend data and not just financial information for one or two years. Such longitudinal analysis is a difficult task because of the complex accounting adjustments and continuous restructuring of departments. We recommend that parliament obtains expert advisors who can supply the necessary analysis.

Proponents of privatisation have suggested techniques such as running down of government agencies, raising their apparent costs relative to private sector providers, “clear the decks” routines which provide opportunities to consider alternative forms of provision, and use of PPPs as means of furthering their agenda. In these circumstances, they argue, privatisation is likely to be accepted on pragmatic grounds even if it is opposed on ideological grounds. These techniques appear to have been wired into the New Zealand system using technical financial rules at macro and micro levels and selective application of both these rules and of some key definitions underpinning them. Even if privatisation and shrinking of government are desirable objectives, we believe this should be determined in open political debate rather than a position which is forced through hidden technical means. The Scottish Parliament may

---

19 For example, see Emanuel Savas 1982; 2000 Privatizing the Public Sector: How to Shrink the Government; Privatization and Public-Private Partnerships, Chatham House, New York

wish to examine whether any of the rules used in New Zealand are embedded in the UK system.

Parliament should seek information on existing capability, the funding of changes to capability and information that relates changes in workload to changes in capability and consider defining more precisely the role of responsible ministers in relation to capability. This could be in terms that encompass not only balance sheet assets but also human resources, output production methods, and information and control systems.

Another matter which warrants close parliamentary scrutiny is commitments and arrangements favouring PPPs. The NZ case shows that accounting rules can be put in place, or selectively applied, in a manner which allows PPPs to be entered into without initial parliamentary approval despite rhetoric of transparency and fiscal responsibility and an apparent deluge of financial information. Insufficient parliamentary scrutiny of, or control over, imprest supply and supplementary estimates compound the problem. We strongly recommend reporting of commitments and contingent liabilities on a monthly, and not merely annual, basis.

Finally, accounting and technical financial management rules may appear boring and tedious to most parliamentarians and the public at large. The temptation is to devote relatively more time to issues that are more readily understandable and more politically interesting. We believe that this temptation should be resisted. The technical and boring may have implications for much wider issues including the size of government; the capacity government requires to fulfil its job and even the fundamental mechanisms of elected democracy. A more thorough examination of the technical details of Estimates and reports is at least as important a function of Parliament as obtaining public input into budget making. Improved scrutiny of estimates and review of financial reports may themselves encourage improved budget making in the first instance. Whatever its role in fiscal policy or its implications for day to day management by government agencies, the question of control over public finance has been, and always will be, of fundamental constitutional significance.

---

3. Case Study Report – States of Georgia and Kansas, USA

Prof Kurt Thurmaier
Iowa State University

Dr Katherine Willoughby
Georgia State University

3.1 Introduction

Budgeting in the American states is different from that conducted at the national level in the United States. First, state budgets are revenue driven, have balanced budget requirements and constitutional or statutory debt limits. Thus, it is rare for state government legislatures to end a session without passing their budget bill or bills, although this does happen rarely when governments experience extreme fiscal stress.

Second, budgeting in the states typically is characterized by strong executive driven budget development, followed by legislative deliberations that focus attention on a relatively few budget issues that are highly contentious between the executive and legislative branches. Or, budgetary debate may be most heated between the majority and minority parties within the legislature itself. The vast bulk of the budget decisions made by the executive in the governor’s budget proposal are ignored or given relatively little attention by the legislators, and often remain unscathed during the legislative phase of budgeting.

This phenomenon is partly explained by a third major difference from national budgeting. Unlike in the U.S. Congress, most state legislatures are part-time “citizen” assemblies that only meet three to four months per year, in some states even less often. Consequently, budgetary politics in the state legislatures is highly localized; that is, the typical legislator is concerned most about how services are delivered in his or her legislative district—and in what quantity. Revenue (tax) policy is an exception in that it usually affects all districts and is therefore of concern to the whole body. Revenue policy includes related subjects such as aid to local governments (property tax relief) and aid to local school districts (also property tax relief).

This, in turn, has a consequence for performance budgeting and performance measurement in the American states. Traditionally, budget reforms and especially performance measurement pressure have been predominantly executive driven and of concern to executive budget officers regarding the performance of individual programs within state agencies and departments and how well such performance meshes with the governor’s policy agenda. Legislators, on the other hand, are more typically concerned with how effectively services are delivered in their own district more than how effectively the program is delivered statewide.
The former is measured by constituent complaints and feedback while the latter through application of formal performance measures.

It is interesting, however, that in the last decade, most states legislated performance budgeting and measurement reforms, while only about a third instituted such requirements through budget instructions, guidelines or some other form of executive mandate to state agencies (Melkers and Willoughby 1998, 67). Even though there is little distinction among the components of these reforms between states with legislative versus administratively driven systems, the fact that much of the current movement in the states has been initiated by state legislatures is important. In effect, “executive and legislative budget players are increasingly alike in their consumption of performance data and program analysis for purposes of budgetary decision making” (Melkers and Willoughby 1998, 72). Still, such performance based systems have their “strongest impact on the agency level, a slightly dampened effect at the central budget office level, and then muted effect on the legislative side” (Willoughby and Melkers 2000, 119).

In fact, legislatures implicitly or explicitly tend to delegate responsibility for assessing the performance of state programs to the executive, a responsibility that has fallen largely on the state budget offices. Thus it is not surprising to seasoned observers of state budgeting (state agency fiscal and program officers) that despite considerable work and effort to make state agency budgets more transparent with performance measures, there are relatively few instances where such measures are the source of legislative debate, and even more rarely the basis of budget allocation decisions in the state legislatures.

This report first provides the budgeting context typical in most states, with information culled predominantly from the National Association of State Budget Officers (NASBO 2002) and the National Council of State Legislatures (NCSL 1999) most recent surveys of budget staff in their relative branches concerning budget cycles, format and procedures, budget authority and other limitations or restrictions within which states operate. Next, a the budgeting systems and performance measurement experience in two states, Georgia and Kansas, is presented for comparative purposes with the Scottish experience. Finally, important distinctions between budgeting in the American states and that in Scotland are reviewed.

### 3.2 Budgeting cycles and formats

States are divided in terms of budgeting cycles. Most have an annual budget cycle in which appropriations cover one fiscal year—except for three states, such cycles begin July 1st and end June 30th. Twenty-three states have two-year cycles, and two states, Kansas and Missouri, have combined annual/biennial cycles. (The 1994 Kansas legislature specified that 20 agencies prepare and use biennial budgets, mostly various forms of licensing boards whose revenues are realized predominantly if not exclusively from the groups they regulate.) For most states with a biennial cycle, the budget is developed and passed to cover two fiscal years. Still, 14 states with the two-year cycle hold annual legislative sessions, allowing this branch to review the budget as passed for the subsequent year (NASBO 2002, 4). Annual
cycles empower legislative oversight of agency budgets given the yearly review. Biennial
budgets offer greater flexibility to chief executives and agency personnel because of the
longer time frame. The two-year cycle can better support a performance approach to
budgeting by allowing an extended consideration of performance measurement development
as well as program results assessment over two years, rather than just one.

While traditional incremental budgeting remains a mainstay of budget practice in the United
States, it is clear that states are much more sophisticated in terms of their approaches to
developing and executing spending. Incremental budgeting is most closely aligned with a
line-item budget format in which decisions of spending are related to additions or subtractions
to the budget base. “Funding decisions are made on the margin” (NASBO 2002, 91). While
33 states indicate their budget approach as incremental, only two, Alaska and Indiana, claim
adherence to this approach alone. All other states indicating an incremental approach to
budgeting claim that they use this approach in conjunction with others, such as performance,
program or zero based. In fact, 41 states indicate use of a program approach, and for seven
states, this is their sole approach to budgeting (NASBO 2002). Program budgeting is an
advance from traditional incremental budgeting in that it requires a more analytical focus,
holds a multi-year perspective and usually appropriates for a program of services rather than
for line items (objects of expenditure, including travel, fuel, software, etc.). Costs must be
linked with agency activities, and alternatives to meet program objectives must be developed.
This approach implies a broader (matrix oriented) consideration of state activities and
comprehensive view of state policy effects when deliberating about spending (NASBO,
1999).

Twenty-one states indicate use of a performance budget that may employ a program template
but have requirements for explanations of program goals and objectives, and development of
performance measures that illustrate the results of government activities. Appropriations may
be linked to the expected performance of agency programs (NASBO 2002, 92). Maine is the
only state that indicates sole reliance on a performance approach to budgeting. Maine is also
a state that employs the biennial budget cycle.

Finally, just 13 states indicate a zero based approach to budgeting; a process that involves
making budgetary comparisons within and across agencies and departments. This is a
bottom-up process in which, ideally, program managers rank several spending scenarios vis-
à-vis program consequences (such as 0 percent increases, 3 percent increases, 5 percent
decreases). Ranked packages move up the organization and a sifting process is conducted
with the hope of producing a “best package of spending.” A hybrid form of zero based
budgeting involves evaluation and ranking of programs on a rotating basis to better
accommodate the labor-intensive nature of the process when applied comprehensively. Only
one state, Georgia, indicates adherence only to zero based budgeting. Nonetheless, the
Georgia General Assembly passes a line item or traditional budget.

Legislative budget staffs tend to characterize the budgeting approaches used in their state
differently than their executive counterparts. Table 1 illustrates distinctive perceptions across
branches of government concerning budget approach. That is, those responding to the
National Conference of State Legislatures (1999) survey about budget practices indicate predominant adherence to a traditional or incremental budget approach (27 states). Ten states indicate use of a program based approach, three indicate use of a performance approach, and no state indicates use of a zero based approach to budgeting. Ten states claim that their approach to budgeting is a combination of formats. For example, in Colorado, “the General Assembly can require departments to submit zero based budget requests. The General Assembly also has entered into performance based memoranda of understanding with certain departments or agencies” (NCSL 1999). And, whereas Florida’s executive budget staff indicate a combined budget approach that is largely program-based, but including incremental, performance and zero based, those on the legislative side indicate that this state “has enacted requirements for performance based budgeting that are being phased-in. [However] current practice is more traditional” (NCSL 1999).

Table 1: Distinctions by Branch: Budgeting Approaches Noted by Executive and Legislative Budgeters

<table>
<thead>
<tr>
<th>Type of Budgeting Approach</th>
<th>Number of States Indicating Approach by Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>NASBO</td>
</tr>
<tr>
<td>Line item/Incremental/Traditional</td>
<td>2</td>
</tr>
<tr>
<td>Program</td>
<td>7</td>
</tr>
<tr>
<td>Performance</td>
<td>1</td>
</tr>
<tr>
<td>Zero base</td>
<td>1</td>
</tr>
<tr>
<td>Combination</td>
<td>39</td>
</tr>
<tr>
<td><strong>Total Number of States</strong></td>
<td>50</td>
</tr>
</tbody>
</table>

In summary, most states take advantage of two or more budget approaches, with incremental and program approaches most popular. In the last ten years especially, most states have also implemented performance based budgeting requirements, either through legislation or by executive mandate. Such systems establish requirements for developing measures of performance and tracking agency results—these systems are often stepped (a few agencies or programs are added every year) or piloted to provide for the slow, substantive institutionalization of new procedures and orientations (Melkers and Willoughby 1998). Further, these systems are far from comprehensive in their application or use as an exclusive approach to state budgeting (Willoughby and Melkers 2000).

3.3 Budget authority of state government chief executives

Certainly some budget power for governors rests with their tenure and succession abilities. The most empowering scenario is for a governor to be able to serve an indefinite number of four-year terms. Michigan’s current governor, John Engler, has amassed the most continuous service as a chief executive, having been first elected in 1990. That state has since passed a law restricting the governor to two consecutive four-year terms. Most states allow their
governor four-year terms with the ability to serve two terms. Virginia affords its governor just one four-year term; New Hampshire and Vermont have two-year terms for their governors, however, with unlimited succession (National Governors’ Association 2002).

Executive budget office location within the governor’s office can serve to arm the chief executive with strong policy support during his or her administration (Thurmaier and Willoughby 2001). However, just ten states afford this to their governor, reflecting a long tradition in the states of limiting the executive’s powers. Most budget offices are located organizationally within another executive department of administration, finance, or management and budget. Ten states have designated their executive budget office as free standing, neither in the governor’s office or embedded within another department or agency. Of course, there are many nuances to such arrangement. For example, in Kansas, the Budget Division “is located in the Department of Administration for budgetary purposes only. [However], the budget director reports directly to the governor, and the office functions as the governor’s staff” (NASBO 2002, 17).

Having the budget director primarily responsible to the chief executive also affords a governor some substantial support for fulfilling his or her policy and budget agenda. Half of the states give their chief executive the ability to appoint the budget director—most serving at the pleasure of the governor. In 11 states, the budget director is appointed by a department head with approval of the governor, while in nine states the governor’s appointment must be approved by that state’s senate. Only four states, Arkansas, Louisiana, Maine and Oregon, do not afford the governor a direct role in the appointment of the budget director, giving this responsibility to a department head or commissioner who is typically appointed by the governor. More than half (27) of state budget directors are cabinet level appointees, enhancing their power vis-à-vis other cabinet members, the governor and members of the legislature (NASBO 2002).

State budgets are a direct function of the revenue availability in each government. Governors can certainly gain power in budget wars if given lone or primary responsibility for development of the revenue forecast. Few states, however, afford such determination to the governor alone, or to the legislature for that matter. The most common method of revenue determination is by consensus, consortium or some other collaboration that might involve some legislative input either through specific committee membership, the legislative budget office, or specially selected legislators in conjunction with gubernatorial appointees, budget office staff, or a specific division responsible for revenue forecasting. Some states also involve university or other business or economic consultants in such process.

The Kansas example is a model for several states. The tool used by both the governor and the legislature to determine state general fund revenue is the “consensus revenue estimate” prepared by the Consensus Revenue Estimating Group, composed of representatives of the Executive Division of the Budget, Department of Revenue, Legislative Research Department, and one consulting economist each from the University of Kansas, Kansas State University, and Wichita State University. This group meets each spring and fall. Before December 4th, the group makes its initial estimate for the budget year and revises the estimate for the current
year. On April 4th, the fall estimate is reviewed, along with any additional data. A revised estimate is published, which the legislature may use in adjusting expenditures, if necessary. Kansas law requires that the Director of the Budget and the Director of the Legislative Research Department certify a joint estimate of state general fund resources to the legislature. The consensus revenue estimate is the official (i.e. legally binding) revenue projection for the state general fund. Estimates of revenues to other funds are prepared by individual state agencies, reviewed by the Executive Division of the Budget, and included in The Governor’s Budget Report (Kansas 2002a).

In Georgia, where the chief executive is afforded a wealth of budget powers, the governor is the budget director and is solely responsible for the official state revenue estimate. For the past few decades, a state economist who serves at the pleasure of the governor as a consultant in the Governor’s Office of Planning and Budget has prepared this estimate. The economist provides the governor with a low, moderate and high revenue estimate; the chief executive decides on the estimate (traditionally the low figure) just prior to submitting his budget recommendation to the General Assembly. The estimate is a binding figure that serves as the ceiling for the forthcoming appropriation bill. It remains to be seen whether the dramatic power shift in Georgia will influence changes in how the state revenue forecast typically is determined. (The November 2002 elections realized Georgia’s first Republican governor since Reconstruction following the Civil War; and coupled with party change of several state senators, the state’s first Republican majority in the state Senate).

Sixteen states allow legislative revision of the revenue estimate; either solely or in concert with others such as those in the revenue department, the executive budget office or the governor’s office. Twenty-nine states bind their budget to the revenue forecast (NCSL, 1999).

3.4 Budget development

Most states have executive budget systems giving the governor responsibility for budget development and its submission to the legislature for consideration. A strong executive system therefore allows for the governor’s budget recommendation to overshadow or at least drive budget discussions within the legislative branch. There are only a few states (for example, Arizona, Colorado and Texas) in which strong legislatures are less inclined to begin budget negotiations directly from the governor’s recommended spending plan. Most governors have a responsibility of providing agencies with budget request guidelines that often include the revenue forecast, the governor’s policy agenda and administration focus among a myriad of state responsibilities (education, economic development, transportation, corrections, health and other human resource related programs). Guidelines may have request targets (as in zero base budgeting) which agencies must work within when developing and submitting their spending plan to the executive budget office. According to NASBO (2002, 26) there are only 15 states in which agencies do not receive funding level request targets from the governor along with budget preparation guidelines.
Although governors often face politically divided legislatures, the bulk of the state budget proposals are not challenged by legislative debates. Although there are no good measures of gubernatorial budget success relative to legislatures, conventional wisdom suggests that the budgetary conflicts between governors and legislatures are centered on major issues related to revenue generation (including aid to local governments to suppress local tax rates and education subsidies to suppress local education taxes), and occasionally other policy areas (such as the location of major corporate hog and cattle farms which threaten groundwater and air quality in Midwestern states; these are very controversial issues at state and local levels). Secondary evidence regarding the relative controversy of different types of budgetary decisions is the degree to which the budget recommendations by state budget examiners influence the budget proposals of their respective governors (see Thurmaier and Willoughby 2000, 163-166).

State budget examiners have uneven influence on the range of decisions made in budgeting. Their influence is weakest for major policy decisions such as school finance reform, while their influence is considerable regarding base budget adjustments and minor to moderate program enhancements. Over the entire budget cycle, budget examiners manage three levels of budget decision items in budget preparation and two types of budget decision items during budget execution. The salience of performance measures to executive and legislative budget analysts varies across these levels and types of decisions.

3.4.1 Performance measurement applicability to budgeting decisions

The performance measurement and budgeting reforms of the last decade exhibited in the states are different from that promoted in the 1940s and 1950s at the federal level. These systems require strategic planning about agency missions, goals and objectives, and they request quantifiable data that provides meaningful information about program and activity outcomes. Research shows that both executive and legislative budgeters consider the performance based budgeting reforms as they have been implemented “at least ‘somewhat effective’ in improving agency program results, decision making in government and [related to] coordination between agencies and the legislature” (Willoughby and Melkers 2000, 113). These budgeters are fairly cautious though when considering performance measurements’ direct applicability to cutting costs or generating economies of scale and view such reform as having ‘no effect at all’ on appeasing the public or changing appropriations (Ibid.)

Some research exists that illustrates subtle implications of the application of performance measurement into budget systems. Franklin’s (2002) analysis of appropriation format change from 1990 to 2000 in two states finds that agencies in the state that advances a performance based system (Arizona) are more likely than those in the non-reform state (Oklahoma) to have less restrictive appropriations at the end of the decade. Her results show that other variables can effect appropriation format, including the restrictiveness of the format in 1990, the percent change in general fund reliance of an agency, whether the agency head is elected, and turnover of agency heads over time.
Jordan and Hackbart (1999, 84) find some support that agency performance achievement can influence the chief executive’s budget recommendation. Such achievement is highlighted during budget development when agencies communicate with the executive budget office about their activities, performance and results. These authors also find that “more than half of the respondents from a survey of state executive branch budget officials answer that performance indicators are important tools for allocation decisions or budget recommendations” (1999, 78). They point out that measurement supports making adjustments to funding to improve or maintain performance and is little used to punish agencies for not reaching performance goals (1999, 85).

Chackerian and Mavima (2001) analyze budget reform during Governor Lawton Chiles’ term in the State of Florida and conclude that, “key stakeholders like the idea of budget reform and performance measures. Policy conflict and ambiguity is moderate. Budget reform is seen as doable and as possibly resulting in long-term cost savings.” They conclude, “While performance based budgeting represents a departure from [our traditional approach], it is built upon past practice. …The generalized legitimacy of the approach, the incremental implementation, and the existing statutory framework for budgeting and staffing have greatly reduced the implementation costs, and thereby makes full implementation more likely” (2001, 353-377). Bradley and Flowers (2001, 401) are less sanguine about the application of performance measurement to budgeting in Florida, stating, “Legislative aspirations to make performance central to allocation decisions have been largely deflected in the face of persistent technical problems.” Their conclusions again point to the importance of sustained leadership (and in both branches of government) for effective reform.

3.4.2 Budget decision levels

The bulk of the decisions during budget development are not high profile ones. Level one decisions adjust the base budgets of agencies, and therefore influence quite a bit of spending. The goal of the base budget decision set is to craft the “continuation budget” or the “cost to continue” budget for the agency. This base budget definition corresponds to an allocation that will permit the agency to continue providing the current level of services, given no changes in policy demands or responsibilities. Generally, these adjustments account for inflation in commodities and services purchases, reductions to remove one-time allocations for capital spending and special earmarks from the last budget session, and so on. Examiners heavily influence most of these decisions.

Sometimes, the budget instructions require a reduction level for agency budgets to anticipate inadequate revenues. The budget director in consultation with the governor decides the reduction level. Examiners have virtually no input on the reduction level required for budget submissions. However, examiners are delegated responsibility by the budget director to analyze agency budgets for the impact of a reduction level on agency operations. This is an opportunity for an agency to use performance measures to argue against a particular budget cut; however our interview data does not suggest this evidence is used with any frequency in such cases. The “measure” of program impact is not very precise as a rule, and the problem is
often framed in terms of the relative ability of different programs to absorb a reduction while maintaining a given service level.

Base budgets are adjusted for increases on a routine basis in other ways. The personnel cost increases account for significant spending, but they are highly political in many states. These decisions are sometimes tied to collective bargaining agreements, which means they fall differentially across agencies. Oftentimes, however, the majority of state workers are affected by an overall pay increase decision that raises most agency personnel accounts by the same percentage. Because these salary decisions involve so much money, however, they are often among the last decisions to be made in the budget, after policy priorities have been met. Examiners have little or no influence on these decisions, and the general salary increase level (even if variably distributed to individual workers based on some type of merit system) is not tied to a performance measure.

Second level decision items include minor policy and budget adjustments, often involving a decision to add a staff position to a program, or to increase capital outlays for major equipment or a building improvement. It can also involve funding for a pilot program. Decisions about increasing agency positions are important and often difficult, especially where governors have run election campaigns on platforms to reduce the number of state government positions. These kinds of decisions are often called budget “enhancements” because they increase or alter the level of program services by an agency. This is a very influential decision area for examiners, because they are highly qualified to advise the budget director and governor regarding the policy and programmatic impacts of these decisions. This decision level often involves the most decisions, since agencies routinely argue for improving and expanding their programs. The examiner’s assignment is to analyze the request and decide whether it has intrinsic merit, and whether its merit warrants inclusion in the next budget. The latter half of the decision requires an understanding of the macrobudgeting environment and the standing of the particular request with regard to the policy and budget nexus. It is in this decision level that the examiners are most visible, and for which they are delegated major responsibility. This is another area where agency performance measures could be used as evidence to support the budget request, but again, we have little evidence from our interview data to suggest they are used this way, even if they exist.

Level three decisions include the major policy decisions that significantly alter base budgets. Increased property tax relief to homeowners and major restructuring of the school finance formulas are major policy shifts that involve significant budget changes. Although the decision may affect only one agency budget directly (the revenue department or the education department, respectively, in the above example), significant funds spent on such policy initiatives usually represent lost allocations to other agency spending enhancements. Thus, budget directions that specify gubernatorial policy priorities, such as increased property tax relief, may be interpreted by both agencies and examiners as suggesting it will be difficult to get spending increases for other agency budgets, especially if the fiscal climate is not robust. When major policy initiatives are included in the budget development, the state budget office (SBO) examiner assigned to the target agency often identifies and analyzes the feasible alternatives, but often stops short of recommending one alternative above others. These
decisions are not based on performance measures. Usually the final choice of the governor involves a high degree of political consideration; the high political stakes involve risks by the governor, not the examiner.

3.5 Legislative consideration of the governor’s recommendation

As noted earlier, in most states the legislature uses the governor’s recommended spending plan as a starting point for budgetary negotiations, while heated policy negotiations may center on just a few major issues. And in all but three states the legislative branch holds complete power to make changes to the chief executive’s budget recommendation. In the Maryland, Nebraska and West Virginia legislatures however, this power is dampened by not allowing certain spending increases, requiring majority support for certain spending increases, or isolating certain budgets from any negotiation, like that of the judiciary branch (NCSL 1999). Further, the power of the legislature rests with its responsibility for passing the budget, a responsibility that is rarely missed. Unlike the executive branch, which remains “in session” perpetually by virtue of administering government programs and services, legislatures are part-time and have a limited window of time within which to consider the budget before passing an appropriation bill or bills. States exhibit a range of time frames in which their legislatures can deliberate about the budget, from four weeks to several months (NCSL 1999).

3.6 Other formal powers that influence budgetary negotiations

Other powers that provide the governor with an advantage regarding budgetary issues vis-à-vis the legislature include reorganization abilities, and flexibility of spending federal dollars, or making reductions or other changes to the budget, all without legislative approval. About half the states (24) afford their governor the ability to reorganize departments without legislative approval, while most allow governors some ability to spend unanticipated federal dollars as well as to reduce the state budget without legislative oversight. Such allowances, of course, have many caveats. For example, below are some idiosyncrasies of states regarding budget flexibility:

- in Arkansas the governor and chief fiscal officer can reduce general revenue funding when shortfalls occur in revenue collections;
- in Florida, deficits over 1.5 percent of appropriations must be resolved by the legislature;
- in Massachusetts unanticipated funds from old grants can be spent without legislative approval but new grant funds must be approved for spending by a joint legislative committee;
- in Montana the governor cannot make budget reductions on principle and interest on state debt, regarding the legislative or judicial branches of government, school aid, or the salaries of elected officials;
in New York, reductions in aid to local governments cannot be made without legislative approval;
> in Texas, a strong legislative state, the governor can only transfer, reduce or increase agency budgets through joint budget execution authority with the legislative budget board;
> in Virginia, the governor cannot reduce appropriations, but can withhold allotments (NASBO 2002, 26-29).

Governors may be allowed to restrict agency spending to a certain percentage of their total appropriation. For example, agencies might be able to spend up to 98 percent of their appropriation, with two percent held in reserve by the governor for balancing purposes during budget execution. Virtually every state affords their governor some veto power; even in North Carolina where such power is extremely limited. Most states allow for line item veto and item veto of appropriations, with item veto of selected words or to change the meaning of words less likely. Governors in just three states, Illinois, New Jersey, Wyoming have such extensive budget veto power.

Certainly, the governor’s veto power is one aspect of the legislative-executive balance related to budget making, but culture and state politics contribute as well to who is considered the winner once the appropriation bill(s) is passed. As mentioned earlier, states are different from the federal government in that balanced budget requirements, debt limits and a revenue driven process make passing the budget a hard and fast rule of state legislative operation. In fact, the threat of the veto by the governor during budgetary negotiations tends to go further than the actual use in terms of influencing a final appropriation. And research shows that gubernatorial threats are more effective for advancing the chief executive’s policy agenda than for making budget reductions (Abney and Lauth 1997).

3.7 Post enactment and budget execution

There is some parceling of responsibility across these branches during budget execution—reporting and balancing responsibilities fall to the executive, while some spending oversight responsibilities fall to legislatures or special fiscal committees. Many states allow budget changes during execution without involvement of the entire legislature but from a select group of legislators. Given that legislatures meet for only a portion of the year, it is too expensive to call for budget changing sessions throughout the execution phase of budgeting. As illustrated above, most states afford their chief executive some flexibility regarding making cuts to agency budgets, as well as for moving funds around to account for spending changes. Finally, states have supplemental processes by which legislative committees or the entire body can increase or decrease agency budgets to account for program change sometime during the budget year. Audits of government expenditures and program results at the end of execution are generally the responsibility of state audit offices. These offices are usually independent agencies that may be organizationally aligned with either branch of government and whose director could be elected or appointed (NCSL 1999).
3.7.1 Execution phase decisions

There are execution phase budget decisions that affect budget development decisions in several ways. First, periods of fiscal stress can require cutback budgeting, which essentially resets the base budget for the agency. Depending upon the method used, the cutback will be across the board or cuts will be applied to agencies selectively. Examiners in our sample of states were usually experienced with these cutback decisions. The major factor influencing how they recommended agency budget cuts was whether they were allowed to work with the agencies or they were required to generate the cutback options by themselves, without agency comment, for presentation to the budget director and governor. Performance measures could also be used in these discussions.

A second set of budget execution decisions essentially mixes with decisions defining the agency’s base budget. As the current fiscal year nears completion, the development phase has already begun for next year’s budget. Technical procedures are often used by SBOs to insure that agencies do not rush to spend remaining allocations before the end of the fiscal year. The conventional wisdom in budgeting is that if an agency does not spend all of its allocation then its budget will be reduced in the next fiscal year by a corresponding amount. The conundrum is apparent to agency budgeters and SBO examiners alike: if an agency does not need the money, it should not spend it; but if it does not spend as planned and the budget is subsequently reduced, the agency relinquishes organizational slack and the ability to reallocate funds internally to accommodate emerging problems and priorities. Some states, such as Virginia, have experimented with letting agencies “bank” some percentage of unspent funds for future capital outlay spending, especially for information technology enhancements.

From the perspective of the budget director, the amount that agencies collectively do not spend in the current fiscal year is carried forward as funding available for allocations in the next budget year. Especially when the fiscal climate is not robust, this can make or break a governor’s policy initiative. Without the carry-forward balance, there may be insufficient new revenues to pay for the governor’s policy priorities. So the examiners have a responsibility to make sure that their assigned agencies do not spend lavishly or unnecessarily in the remaining months of the fiscal year solely to “preserve” a base budget allocation. Ultimately, they must balance the needs of the agency programs with the need for the governor to have a sufficient funding pool upon which to build future policy initiatives. Performance measures are largely irrelevant to these decisions.

3.8 State performance measurement highlights: Examples from Kansas and Georgia

This section highlights recent examples of performance measurement initiatives in the states. The Kansas example focuses on higher education. The Georgia example illustrates application of the results based budgeting format that serves as a guideline to agencies for budget development.
3.8.1  **Budgeting and performance indicators in Kansas**

Kansas is one of the least populous states in the U.S., ranked 32nd with approximately 2.6 million citizens (U.S. Bureau of Census 2001). It is a state where the budget is strongly policy oriented. The governor has exclusive power to develop the budget proposal that is submitted to the legislature, and the governor appoints the budget director (even though he or she is technically located in the Department of Administration). As in many of the states, the governor is not legally required to sign a balanced budget.

The Kansas State Budget Office (KSBO) is also strongly policy oriented. There are about 14 budget examiners in KSBO; the organization has a flat structure with examiners freely discussing issues with the budget director whenever necessary. During preparation of the governor’s budget proposal to the legislature, the examiners personally brief the governor about decision items in their agency budgets. Executive budget planning begins with the governor formulating goals and policies in accord with revenue and expenditure forecasts. Working from baseline estimates in June, the budget director asks the governor what kind of balance he or she wants at the end of the year. The balance is subtracted from the revenue, and then the director adds capital expenditures and social spending commitments to estimate the total budget and the surplus (or deficit).

The governor’s fiscal powers are constrained by the legally binding character of the consensus revenue estimate, which generally removes political slack from underestimating expenditures or overestimating revenues for the next budget. In addition, the Kansas governor must have legislative approval to reorganize state departments and bureaus without legislative approval.

Until about 1980, the KSBO staff served both the governor during budget development and then the legislators during legislative consideration of the governor’s proposal. In 1974, the Kansas legislature joined other American state legislatures and created their own independent fiscal staff to advise them during budget consideration. As in many states, the Kansas legislature is a “citizen” legislature, meeting for 90 days each year to consider the annual budget and any other business. The legislature regularly appoints study committees staffed by the Legislative Research Department (LRD) to study certain issues in-depth during the interim between sessions. The products of these interim committees often become proposed bills in the next legislative session. Gubernatorial-legislative conflicts over the budget usually focus on some aspect of revenue policy, most notably state aid to local school districts (which is at root an issue of property tax relief). Lately, this has been characterized by a strong partisan faction that annually insists on cuts to the tax base and lower expenditures with the governor tempering the revenue cuts to protect expenditure demands.

The loci for Kansas legislative budget decisions are the Ways and Means committees of the House and Senate; seats are apportioned among the majority and minority parties. They receive the governor’s budget proposal and are responsible for reporting all appropriations bills to the main body. They also obtain greater procedural powers than most committees to help them influence budget decisions (Rein and Brown 1981: 14). Partisanship is largely
restricted to major policy discussions, and “the vast majority of budget items when taken singularly do not constitute significant policy decisions (Rein and Brown 1981: 15). The LRD budget staff are organized to serve the legislature as a whole, rather than specifically to staff one party or the other, or solely the Ways and Means committee of each chamber. In effect, however, the Ways and Means committees exact major demands on their time and analytical skills. Ways and Means and other committees can also draw upon the staff reports of the legislature’s Division of Post Audit to provide evidence of whether programs are meeting financial and programmatic requirements set by the legislature.

While the KSBO executive budget staff prepare recommendations for the governor’s consideration in personal briefings, the legislative staff do not. Rather, they are to “present as complete a description of the issues at hand in as unbiased a manner as possible. Staff work is guided by the philosophy that legislative decisions should be made with maximum information supplied without prejudice by the staff” (Rein and Brown 1981: 22). Both the executive and legislative budget examiners are nonpartisan, but the legislative budget staff are additionally neutral with respect to any given budget decision.

As in other states with a strong policy-oriented budget process, budget development and recommendation serve as the foundation for the governor’s bully pulpit. The governor's policy agenda is focused on a few initiatives, while the budget must encompass the expansive range of state policies and programs. The thinking of strategic politicians, including those in the legislature, is shaped by the influences of long-term trends, regular cycles and deadlines: Budget cycles, revenue estimates, and legislative sessions are of great significance because they establish deadlines for when decisions must be made. The consequence is that most budget decisions are made in the executive state budget office and affirmed by the governor and ratified by the legislature. The exceptions are the major policy issues related to revenue policy, especially school finance. The recent experiences of Kansas with performance indicator shows that they are not an integral part of budgeting decisions.

3.8.2 Background on SB 345 Institutional Improvement Plan

The 1999 Kansas legislature enacted the Quality Performance Program as a portion of Senate Bill 345, the Higher Education Reform Act. Statutory language was included that explained the purposes of the program, the responsibility of the Board of Regents, responsibilities of the institutions, requirements to be eligible for a performance grant, and timelines for implementation. Rather than requiring institutions to report progress through the use of various quantitative measures such as increased student credit hours, SB 345 provided a real opportunity for each institution to identify the indicators and accompanying performance measures important to the attainment of its mission—and represent them both qualitatively and quantitatively.

In addition, the legislation established the Quality Performance Grant Program, which allowed the Kansas legislature to award funding of up to two percent of an institution’s base
budget if progress in each core indicator area could be substantiated by the institution and the board of regents, and if the necessary state funding were available beginning in FY 2003.

The Kansas University (KU) provost appointed a committee on performance indicators (PIC) to consider and recommend performance indicators that potentially could be included in the KU “Institutional Improvement Plan” required by SB 345. The PIC held a series of six meetings beginning on December 16, 2000. KU administration scrambled to meet the requirements in fear of losing two percent of its funding, since the language was so ambiguous it could mean a loss or a gain of base budgets. Eventually, it was decided that the two percent was tied to increases only, and base budgets were not at risk, at least from SB345.

The KU administration then determined to gain the two percent increase with the requisite performance indicators. First, a one page list of first year measures was developed. These measures were later developed into a five page list of measures for first year and subsequent years. Each measure also identified the administrator or administrative unit responsible for measuring this goal. For example, the university performance indicator:

*Identify possible mechanisms to facilitate interdisciplinary research.*

was turned into:

**Collaboration Among Disciplines and Other Universities and Research Institutions**

**Measure:** Identify possible mechanisms to facilitate interdisciplinary research. Because of the depth of expertise at the various research campuses across the state, it is prudent to work collaboratively with faculty at other Kansas Regents institutions and researchers at other facilities. The second year and thereafter, KU will identify opportunities for collaboration, such as the NIH COBRE grant (led by KULC), KTEC, and EPSCoR.

**Person/Unit Responsible:** KUCR

A senior budget analyst in the Kansas State Budget Office (KSBO) noted that the performance measures in SB345 were inserted in return for a two-year program to give more money to faculty. But since the money ran out, the requirements remain in print only. They are not discussed at more than a cursory level by legislators, budget examiners, or administrators. Hence, the words of a KSBO analyst nearly ten years earlier (Thurmaier 1993) still ring true:

We ask the agencies to give us performance measures for their programs and we look at what they give us and we maybe consolidate them, refine them, pass them on. But they don't go anywhere beyond here. So while we might look at them a little bit, probably more than half the measures aren't any good anyway. So if the measures aren't any good... I called a couple of the agencies, said you've got to have better performance measures. They're like, we're putting our budget together, we can't deal with this now. Because in their mind, the budget is all the numbers and the amount
they’re asking for, just the mechanics, putting it all on the form, all together. Versus
the performance measures which are a peripheral thing that a few years ago they were
told to stick in their budget. They know budget decisions aren’t made on performance
measures.

The FY2002 Kansas legislative session produced SB 647, which directs the Board of Regents
to develop a unified budget for state funding of postsecondary educational institutions and
receive and allocate the state funds appropriated for funding of postsecondary educational
institutions. Beginning in FY 2006, increases in state funding would be dependent on an
institution meeting performance goals (Kansas 2002b). Given the lack of funding in the
Kansas budget for any kind of increased “state funding” in the next year (some estimates of
the Kansas budget deficit are at about $1.2 billion and increasing), there does not seem to be
any sense of urgency in the state budget office or elsewhere to worry about the “performance”
of the state’s higher education institutions. A recent interview with a senior KSBO analyst
suggests that there is no effort, even in the budget office, to link university funding to
performance indicators. The focus is on the growing state deficit, not increases in state
funding several years away.

3.8.3 Budgeting and performance indicators in Georgia

Georgia is one of the most populous states in the U.S., ranked 10th with approximately 8.2
million citizens (U.S. Bureau of Census 2001). Like Kansas, Georgia is a state where the
budget is strongly policy oriented. However, this state differs from Kansas because it retains
a strong control orientation, given legislative adherence to a strict line item appropriation bill.
As in Kansas, the Georgia governor has exclusive power to develop the budget proposal that
is submitted to the legislature, and the governor appoints the budget director. Georgia’s
Office of Planning and Budgeting (OPB) is located in the Office of the Governor. In this
state, it is a constitutional requirement that the governor recommend, the legislature pass, and
the governor sign a balanced budget.

The Georgia’s budget office (OPB) is a strong policy and control oriented office. There are
about 24 budget examiners in OPB; the organization is broken down into sections including
Educational Development, General Government and Public Safety, Human Development, and
Physical and Economic Development. Examiners within each division are responsible for
budget review and assessment of agencies that fall within such areas. The OPB also includes
divisions of Planning, Research and Evaluation, and Capital Budgeting. Like the examiners
in Kansas, those in Georgia are able to freely discuss issues with their division director and
the budget director whenever necessary. During preparation of the governor’s budget
proposal to the legislature, the examiners have traditionally briefed the governor about
decision items in their agency budgets. During Zell Miller’s administration (1990-1998) in
particular, examiners enjoyed a direct relationship to the governor—a chief executive who
required examiners to provide independent research and a proactive approach to budget
review. When asked how examiners in the office gain the governor’s attention regarding the
specifics about an agency’s budget, one responded,
You find an angle and try to make the governor see it. You have to develop a tactic, a strategic plan. The governor is very vocal. He is much more willing to get in the nitty gritty with questions about programs than the previous one.

Nonetheless, these examiners maintain a balanced role between policy activist and program examiner. Stated one examiner, “you must be prepared to make your case. You must make a good case for new spending or know that the governor likes it.” These budgeters understand budgeting is a complex activity that involves the confluence of rational and political factors. Their work is not just “crunching numbers” but requires analysis of the organizational and financial results of policy decisions (Thurmaier and Willoughby 2001, 152-153). Throughout the budget development phase, OPB examiners have innumerable avenues for gaining a clear understanding of the governor’s policy focus—through speeches, in meetings with the governor or others who have met with the governor, via the media, press releases and in direct conversation with the budget director, deputy director or division directors. This helps them to sustain a strong policy orientation while helping develop the governor’s budget recommendation.

On the legislative side, Georgia’s Legislative Budget Office (LBO), created in 1970, houses a centralized and nonpartisan staff that provides budgetary and fiscal analyses and support to both houses of the General Assembly. Examiners in the LBO receive agency budget requests when they are submitted to the OPB and they conduct similar analyses of these agencies’ spending wish lists—preparing information on continuation and improvement funding totally independent of that being prepared by the executive budget examiners. Yet, examiners in both branches maintain a fairly open line of communication during budget development; and LBO examiners will compare their analyses with those presented to the General Assembly when the governor submits his budget recommendation. Historically there have been fewer legislative budget examiners in number than those found in the OPB. Couple this with the greater number of “bosses” to serve (versus one chief executive) and the executive examiners’ stronger role of oversight of agency spending during budget execution and it is little wonder that legislative budget examiners can be characterized as less policy oriented than their executive counterparts. An OPB examiner interviewed in 1994 explains one impression of the legislative budget examiner orientation:

My perspective is that their orientation is different. They are working from a legislative priority, which may not always be the same as the executive branch’s priority. We’ve had, or in the past ten years there has been, significant changes based on our recommendations to what was actually funded. We have to respond to those types of changes and because it’s an information sharing and we work with the budget staff in the department to compromise and then once the legislative budget office gets involved, then there is a lot more of a three way compromise so we kind of have to work together to work out what changes come about, what impact those changes will have, and we share information back and forth.
Research, in fact, indicates that legislative examiners place greater weight than their executive counterparts on economic factors of workload and efficiency over political factors like legislators’ or the governor’s agenda when reviewing agency budget requests. Willoughby and Finn (1996, 544) characterize legislative examiners as less policy oriented than executive examiners and point out that these analysts “serve an important role in communicating an objective perspective on budget matters, one that is useful to those with the final say [about state spending].”

Generally, the governor presents his budget report to joint appropriations committees of the House and Senate, and then follows with a budget message to the General Assembly during the first week of the legislative session that begins in January. Subcommittees of the House Appropriations Committee make recommendations to a budget subcommittee comprised of House leadership. This subcommittee in turn prepares a budget recommendation that it returns to the House Appropriations Committee that presents its recommendation to the full House. A recommendation is then forwarded to the Senate after which a similar process is followed.

The Senate comes up with its own budget bill that it returns to the House. Where differences occur, and many often do, a conference committee made up of appointees by the Speaker of the House and the Lieutenant Governor as head of the Senate then wrestles with the bill. This committee generates a Conference Committee Report that cannot include amendments. The House and Senate then votes for or against the appropriation bill. Georgia’s governor has the line item veto power, yet must sign the appropriations bill within 40 days of General Assembly adjournment or the bill becomes law (Georgia Legislative Budget Office 2002).

3.8.4 Instituting performance measurement with Senate Bill 335

In 1993, the Georgia General Assembly passed Senate Bill 335 (Code Title 45, Ch. 12, Article 4, No. 610), the Budget Accountability and Planning Act, which introduced outcomes-based budgeting to the state. Now referred to as results based budgeting, this law created the Budgetary Responsibility Oversight Committee as an arm of the legislature to provide for systematic review and evaluation of agency programs. As well, SB 335 instituted continuation budget reports (CBRs) as a component of budget review on the part of examiners in the OPB. Finally, Georgia was one of only seven states at the time to define incentives for goal attainment on the part of agencies related to their strategic plans.

From a budgetary perspective the administration of Governor Zell Miller (1990-1998) can be viewed as perhaps the most sophisticated in terms of budget reform, and interesting, given his consistent cutback management style. His administration has actively supported the results based budgeting approach that has evolved since passage of SB 335. In addition, the governor implemented budget redirection (agencies ferret out cost savings and return a portion of their budget to be redirected into higher priority initiatives) and supported a strong privatization initiative to effect cost savings throughout state government. Even at the end of his last term as Georgia’s governor, Miller remained committed to economy. His list of line-
item vetoes of the 1998 appropriation bill (HB 204) cut $37 million in funding and bonding from about nine state departments and agencies. He rationalized these cuts to appropriations as:

- non-critical, because such items could be funded in some other manner (for example, through the lottery),
- that such items are of lesser value than others,
- that such items are not fiscally responsible,
- that such items are poorly planned, or
- that such items are ones for which funding was not originally requested (add-ons).

SB 335 is a fairly sophisticated document that provided a foundation for a performance based budgeting process. Primarily, this law provides for a two-tiered system of strategic planning similar to that evidenced in Texas. The OPB has the responsibility for developing a strategic plan for the State of Georgia. Agencies develop their own strategic plans, which are reviewed by OPB for congruence with the state’s plan. The budget office also has responsibility for encouraging agencies to initiate cost savings and innovative strategies to administer activities. The law prescribes that agencies successfully implementing such cost savings have greater flexibility in spending up to 50 percent of such savings on “unfunded or underfunded needs of the agency’s own choosing.” According to a budget officer in the OPB, such incentives have not been implemented to date given budget redirection (agency cost savings automatically fed back into the same and other budgets), and the governor’s ongoing commitment to privatization.

This law does provide support for better information to the General Assembly. For example, continuation budget reports are prepared by the OPB examiners regarding the agencies and programs they are responsible for reviewing in the normal budget process. Information on agency mission, performance, and results is assessed and presented to members of the General Assembly. As well, agencies are now required to submit to the General Assembly by September 1st of any year that they may be seeking funding for new programs in the upcoming legislative session. This allows the General Assembly more time to consider new initiatives. An additional support to the General Assembly is the creation of the Budgetary Responsibility Oversight Committee, an evaluation arm of the legislature. This group initially mapped out program evaluations across state agencies staggered over a period of years. It also provides evaluations of agency programs upon request of legislators. This group analyzes agency activities with an eye on the state’s strategic plan. Evaluations are heavily considerate of cost savings and privatization initiatives.

The current process has evolved to remedy problems of past budget reforms. The 1993 budget law supports heightened communication across the branches of government; incorporates the General Assembly in the evaluation of agency programs and performance, yet empowers the governor regarding strategic planning for the state, and in assessing agency performance. In a handout discussing the results based budgeting approach, it is noted that the process was developed to provide greater accountability to the public regarding
government expenditures, as well as “to move state funds to those programs which are in line with the Governor’s directions and priorities.”

While the program of analyses laid out in 1993 bill has moved forward by fits and starts, the process is somewhat, albeit incompletely, institutionalized. The most recent budget request guidelines (OPB Memorandum from William Tomlinson, OPB Director re: Process for Completing the 2004 Results-Based Budget dated August 15, 2002) indicate some settling into the rigors of performance measurement development and reporting has occurred within the state. For example, the OPB director explains to agencies that, “the data in the results based budget provides information that can assist agency managers in staying focused on the desired outcome of a program’s activities.” He further clarifies that,

RBB goals and measures are relatively stable for most agencies, and we have several years of actual result data for most of the measures; we are not attaching detailed guidelines and background material to this memo. To clarify what most agencies will need to provide OPB this year, we have attached a sample RBB page and a list of the data reporting and disclosure needed for each result. For result measures that do not need additional work, we only need three new pieces of information from your agency:

2. The Data Reporting and Disclosure for each Actual Result.

This year, most agency RBBs will not need a significant amount of additional work in developing goals and measures. Consequently, I am asking agency personnel to focus on the following:

Agency staff should review their RBB and ensure that all major non-administrative functions are measured by an outcome-oriented measure.

Finally, the budget director emphasizes the importance of trustworthy information for both executive and legislative consumption. He concludes to agencies “that RBB is not a "silver bullet" that automatically provides an easy formula for funding effective programs and reducing funding to less effective initiatives. We understand that many factors affect program results; some factors are well outside the control of program staff. We also understand that we cannot judge a program's performance using a single year's results; accurate longitudinal results data is needed to begin assessing true program impact. I want you to emphasize the importance of improving the quality of the data with your staff. If the RBB data is not accurate, it is of limited use to OPB, the Governor, agency managers and the General Assembly.”

3.9 Conclusions
Similar to the Kansas and Georgia legislatures, the Scottish Parliament passes laws and scrutinizes the work and policies of the Scottish Executive. They share similar experience regarding attention to performance indicators. In the United States, performance measurement and reporting are primarily executive driven and executive budget staff are very knowledgeable about indicators for their assigned agencies. Often, agency and SBO staff develop appropriate performance measures in consultation. But in the U.S. and Scottish experience, does the lack of legislator attention to performance measures mean that the effort to develop these indicators is wasted? Not necessarily.

To the extent that policy communities exist in state policymaking, they are smaller and less insular than at the national level. In most states, a number of key actors—especially those on the governor’s staff, within the legislature, and among the corps of lobbyists—operate simultaneously in several policy arenas (Loomis 1994, 46). Policy specialists discard many ideas because they cannot conceive of any plausible circumstances under which they could be approved by elected politicians and their appointees (Kingdon 1995, 139). Some policy ideas are kept alive with hopes that the larger political climate will change, even though the ideas might not be currently in favor. Not every agenda item is ripe for policymaking. A problem will be dismissed, perhaps to resurface another year. The exceptions to this phenomenon are the recurring issues of aid to school districts and local governments, and the annual issue of how much (if at all) to raise the salaries of the civil service.

The episodic nature of most policy discussions means that the performance indicators developed for any particular program are unlikely to be of use to most legislators on a continuous basis. The implicit or explicit delegation to the executive of responsibility for assessing the performance of state programs means that the state budget office staff and agency directors are most knowledgeable and most engaged about the statewide performance of a given program. The considerable work and effort to make state agency budgets more transparent with performance measures has value to legislators as well however. Such measures provide legislators with access to benchmarks, as well as indication of the need for greater budget flexibility, if not necessarily changed funding levels.

Consider the case of a performance indicator that measures the discharge rates of hospitals. The executive budget staff and agency budgeters are able to monitor the overall program performance on a continuous basis. A legislator is most likely to become engaged in the discussion of the program’s performance when the discharge rate of the hospital in the legislator’s district does not meet the programmatic standard and/or he or she receives complaints related to this activity that point to distinctions from such standard. The local interest of the legislator is served by the statewide effort and interest of the executive budget staff and agency budgeters who make the hospital’s performance transparent as part of the larger effort at program performance transparency. The indicator may point to management changes necessary that might warrant budgetary changes down the road. Such budgetary changes, then, while not immediate, have a stronger foundation through performance and results reporting to legislators.
In summary, legislatures in the United States have been more forthcoming with budgetary system reforms that require performance measurement development and reporting on the part of executive agencies for legislative consumption. The discussions necessary to pass such legislation, and the subsequent folding of this information into traditional budgetary processes have helped give legislators more equitable footing with executive branch budgeters and administrators regarding government program performance and results. While little evidence exists that such information directly influences final appropriations that are passed by legislatures, there is growing evidence that performance measurement adds value to budgetary deliberations within both branches, and indeed can contribute to advances in communication within and across branches of government, as well as increased flexibility of management and budgeting to support government activity improvements.
3.10 Acknowledgements

The authors would like to acknowledge the helpful background information provided by Dr. Brian Girvin, Professor of Comparative Politics, University of Glasgow, and Visiting Professor at Iowa State University, Department of Political Science, Fall 2002.

3.11 References


Rein, Marlin and Sherry Brown, 1982. The Appropriating Process in the Kansas Legislature (Topeka: Capitol Complex Center, University of Kansas).

Thurmaier, Kurt M. 1993. This is interview data from the Kansas State Budget Office not reported in Thurmaier and Willoughby (2001).


4. Case Study Report – Flanders, Belgium

Wouter Van Reeth, Research Co-ordinator
Geert Bouckaert, Director
Public Management Institute
Catholic University of Leuven
Belgium

Important Comment

This case study has been written based on the characteristics of the budget process as it currently exists in the Flemish Community. A major reform legislation is in preparation, and is expected to be passed by the Flemish Parliament in the course of 2003, to become effective as of 2004. Where appropriate or known, elements of this reform are referred to. As the draft legislation becomes more definitive during the Spring of 2003, the characteristics of the Flemish financial policy and management cycle, including its budget, accounting and audit procedures and formats, will undergo significant changes.

“One cannot speak of “better budgeting” without considering who benefits and who loses or demonstrating that no one loses. Just as the supposedly objective criterion of “efficiency” has been shown to have normative implications, so a “better budget” may well be a cloak for hidden policy preferences.”
A. Wildavsky, The politics of the budgetary process, 1964

4.1 Introduction: Politics and Institutions of the Flemish Community

Flanders covers an area of 13 511 km² or 5190 square miles, which is about 40% of the territory of the Kingdom of Belgium (M.V.G. 1995:12). The official language is Dutch. With a population of 5.8 million, it provided in 1995 almost 60% of the Belgian gross domestic product.

The construct ‘Flemish Community’ covers a complex mixture of institutions and authorities. The current politico-administrative structure of the Flemish public sector is the result of an ongoing state reform process which started in the late 1960’s. What makes the Belgian federal system rather different from most other federal systems in Europe is the fact that the Regions and Communities enjoy ‘exclusive’ responsibilities. As a result, there is no legal hierarchy between the ‘laws’ of the federal Parliament and the ‘decrees’ of the Flemish parliament. The federal government therefore has no formal authority in the Flemish territory or towards
people of the Flemish Community for policy matters which the Constitution has transferred to the Flemish Region c.q. the Flemish Community.

The state reform of 1989 granted Flanders the authority to devise its own administrative (i.e. executive branch) budget control procedure. The Flemish Government used this authority in 1994, and a second time in 2000. The 1989 state reform legislation also provided the possibility for Flanders to organize its own budget and accounting system, within the general boundaries set by federal legislation. This federal legislation is now in preparation, and likely to be passed by the federal parliament in the Spring of 2003. A Flemish Decree, developing a new Flemish format and procedure is under preparation as well. As a result, up until now the format and (legislative) procedure of the Flemish budget and accounting system have managed according to the legislation of the federal Belgian government.

Since the late 1980’s, the proportion of the Communities’ and Regions’ budgetary resources in the total amount of resources of the central government constitutes between 40 and 50%. Taxation policy however remained largely a federal matter. About 90% of the Flemish Regional and Community resources consist of funds transferred from the federal government to the Communities and Regions.

Like the federal level, the Flemish Community is governed by a parliamentary system with a coalition government. Unlike its federal counterpart the Flemish parliament has only one Chamber. The 124 members of the Flemish Parliament are directly elected for a five-year period by the inhabitants of the Flemish Region (118 seats) and the Dutch speaking inhabitants of the Brussels Region (6 seats). The Flemish parliament elects the Ministers of the Flemish Government. This government is headed by the Minister-President, who usually emerges from the ranks of the political party that wins the parliamentary elections, based on a consensus within that party and among the political elite. As a result ‘divided government’ situations are unlikely to occur in this system. A minister of the second most important party in the coalition typically assumes the function of vice-Minister-President. Both top-executives usually have authority over specific portfolios as well. For instance, during the first two years of the ‘Dewael I’- government (1999-2003) the Minister-President also held the portfolio of Finance and Budget.

The Flemish Government’s policy is implemented by seven central departments which are formally grouped in one single administrative entity: the ‘Ministry of the Flemish Community’ (MFC). The MFC’s current structure consists of a matrix organization with two horizontal and five vertical departments. It was established in March 1991, and houses around 11000 civil servants. In addition to the MFC there are a number of agencies, usually referred to as ‘Flemish Public Agencies’ (FPA) who enjoy more managerial autonomy than the entities of the MFC. Each FPA is headed by an Administrator-general. FPA’s of type A are directly controlled by and accountable to a Minister of the Flemish Government. FPA’s of type B have a Board of Directors whose members represent and defend the interests of various social partners and interest groups (e.g. labor unions, employer organizations, political parties, ...).
The 1990s have witnessed a wave of management reforms in the MFC, including the flattening of the organizational structure, the introduction of new HRM tools, strategic planning, a new administrative and budget control procedure and performance budgeting pilots. These reforms were typically initiated by different ministers, monitored by different administrative oversight bodies and supported by different external consultants. As a result, between 1992 and 1996 the reforms were implemented on parallel tracks, rather than in an integrated way.

The federal and Flemish parliamentary elections of July 1999, just after the outbreak of a crisis in the food chain, resulted in a dramatical shift in political majority in both layers of Government. In February 2000, the new Government announced a major reorganization of the MFC and the FPA’s (Vlaamse Regering 2000). This reform is called ‘Beter Bestuurlijk Beleid’ (i.e. ‘Better Government Governance’). In 2003 the MFC’s matrix structure and FPA’s will be replaced by 13 ministries. These ministries would on the one hand consist of ‘core departments’ which will focus more on policy preparation and policy evaluation. The policy implementation tasks of the MFC and the FPA’s will be transferred, reshuffled and/or integrated into newly created decentralized agencies, that will focus on more homogeneous missions and tasks. A key element in this reform is the restoration, after a decade of managerial reforms in the Flemish administration, of the ‘primacy of the political level’ (Vlaamse Regering 2000:2; Stroobants and Victor 2000:12, 49, 61). The new government in 1999 felt it had insufficient grip on the top managers of the MFC and the FPA’s. With each of the 13 ministries being accountable to only one minister, there will be a more 1:1-relationship between the political level and the top of the organization. The statutory position of the administration’s top civil servants will be replaced by a contractual position for a 6-year period.

The major reform will be formally implemented by the enactment by the Flemish parliament of three reform decrees. One of these, the ‘Comptabiliteitsdecreet’, which installs a new budget and accounting system and reorganizes the budgetary oversight, internal control and internal audit. Since this reform has not yet been implemented, the following sections will focus on the situation ‘as is’, and will highlight to what extent the reform may introduce innovations. A (more) definitive and detailed assessment of the innovations brought about by the reform, will not be available before the Spring of 2003.

4.2 The processes of budget and performance target setting, financial and business planning, and financial management and control by governments

The fiscal year (FY) in the Flemish budget process coincides with the calendar year. The budget formulation procedure starts in the Spring of the preceding year. In this period the Cabinet of the minister of Finance and Budget, assisted by the Budget Division, writes the budget instructions which are then sent to the various administrative entities. The instructions

22 The performance budgeting pilots were initiated under the project ‘Doelmatigheidsanalyse & Prestatiebegroting’ (Performance Analysis and Performance Budgeting) by the Minister of Finance and Budget.
include economic assumptions, budgetary growth parameters, policy accents, procedural and format requirements.

The MFC and FPA’s use them to develop their budget proposals. These proposals are written under the guidance of the Cabinets of the competent ministers. The proposals are then sent to the Minister of Finance and Budget and his administration, and to the Inspector of Finance (IF). Next, the proposals, accompanied by the IF’s advice, are discussed and negotiated in two stages, a technical and a political one. A first stage, from the end of June until early July, involves negotiations (‘technical bilaterals’) between the Cabinet of the Minister of Budget and Finance, and representatives of various administrations. Civil servants of the Budget Division make up the reports of these meetings. The technical bilaterals are also attended by a cabinet member of the Minister whose budget is being examined, and by the Inspector of Finance attached to this Minister. Unresolved issues are taken up to a higher level, called ‘political bilaterals’. This second stage consists of political negotiations between the Minister of Finance and Budget and the other Ministers within the Flemish Government. These political bilaterals are typically held at the end of July, just before political Brussels goes into summer recess in August. Lobbying and political decisionmaking on the final executive budget proposal usually continues through August until early September. In September, with the start of the new ‘parliamentary year’, the Flemish Minister-President presents his ‘September Declaration’ before the Flemish parliament. Around the same time the Flemish government submits the proposal of Budget Decree to the Flemish parliament.

The Flemish minister of Finance and Budget coordinates the budget formulation and execution procedures, the treasury, and sets the macro-budgetary targets against which the central departments’ and agencies’ budget requests are assessed. The Flemish macro-budgetary policy however is based upon a consensus between the ministers in the Flemish Government. Also the Flemish budget procedure is, within more general boundaries of federal legislation, regulated by ‘Flemish Government Decisions’, which reflect a consensus of the coalition government as a whole. Because of the limited fiscal autonomy and the financial solidarity mechanisms built into the consecutive stages of the Belgian state reform, Flemish macro budgetary policy in the 1990’s has been heavily influenced by the fiscal and budgetary policy of the federal level (e.g. (Demeester 1995:19-30). Belgian budgetary policy in turn was during this period predominantly determined by the Maastricht-agenda.
The Minister of Budget and Finance and his cabinet office are assisted by the Administration of Budget, Accounting & Financial Management (ABAFIM). It consists of three divisions and is located within the Department of General Affairs & Finance (GAF) (cf. Figure 1). The Accounting Division centralizes the accounts of the various departments and develops the annual financial reports, while the Financial Management Division coordinates treasury and debt management, including some elements of taxation. The Budget Division’s tasks include assisting in the formulation of the budget instructions, collecting and reviewing the agencies’ budget proposals, the submission of the executive budget to the Flemish parliament, and the administrative control of the budget execution. These administrative controls are performed by ‘Inspectors of Commitments’ (Controleurs van de Vastleggingen). The name of the function is somewhat misleading since they check both commitments and appropriations, which refer to consecutive stages in the budget execution.

With the ‘commitment’ (vastlegging) of an expenditure the government commits itself to spend a specific amount of money on a specific budget account. The next step is the ‘appropriation’ (ordonnancering) which involves the issuing of an order to make a payment. Prior to 1995 this order could not be executed without a visa from the Inspector of Commitments and the Audit Court. When this visa was granted the actual cash outlay could proceed. With the introduction by the Flemish Government of a new budget control procedure in 1994 some of these steps can be omitted under very strict specific condition, for specific types of budget programs. Amounts budgeted on ‘non-differentiated appropriations’ (niet-gesplitste kredieten) need to be committed and appropriated within one fiscal year. For
amounts budgeted on ‘differentiated accounts’ (gesplitste kredieten) the appropriation may be postponed for one or more fiscal years.

The Inspectorate of Finance consists of a group of individually and autonomously working inspectors. Originally attached to the federal Ministry of Finance, they evolved into an interfederal corps, a number of which were put in detachment to the Regional and Community authorities, including the Flemish government (S.N. 1989: art. 51). Their secretariat (for the Flemish part of the Inspectorate) was located within ABAFIM. Since the Royal Decision of 28 April 1998 (B.S. 5 August 1998) the Inspectorate is governed by an Interministerial Committee, which consists of representatives of the federal, community and regional Governments, the federal Minister of Finance, and is presided by the federal Minister of Budget. The Inspectors themselves are assigned to the various Flemish ministries, for whom they act as financial and budget counselors. They give a mandatory advice on policy proposals that have budgetary consequences that exceed certain thresholds and partake in the budget reviews during the executive formulation procedure. In addition to these advices, the Inspectors can also perform investigations and audits on the legality, economy, efficiency and effectiveness with regard to specific budget programs. The Flemish Minister of Finance and Budget has had the Flemish Inspectors of Finance rotate every three years to another policy domain, as a measure to guard their autonomy and independence relative to the administrations they are to inspect. Throughout the 1990’s their number has averaged around 10.

4.3 The methods and degree of Parliamentary and other involvement and scrutiny in budget and performance issues, with particular regard to body’s equivalent to the Finance Committee in the Scottish Parliament.

Although the Flemish Parliament formally approves the Flemish budget and closes the accounts, its role in the budget procedure is much less significant compared to that of for instance the U.S. Congress. General budget policy falls under the jurisdiction of the Committee of Finance and Budget, while the budgets of the various administrative entities are discussed in their substantive committees. Members of parliament have the opportunity to submit amendments to the original proposal. After having closed the committee debates, each committee presents a report to the plenary session. These plenary sessions are usually held during the month of December. The budget in principle has to be approved before the start of the new budget year. This time schedule is usually adhered to.

Two bodies external to the Flemish government provide advice on the Flemish budget to support governmental and parliamentary decisionmaking. One is the Social Economic Council for Flanders (SECF), which consists of representatives from the government, labour unions and employer organizations. A second is the High Council for Finance, attached to the federal Ministry of Finance and consisting of experts in economics and public finance. The latter recommends macro budgetary targets for the federal and regional governments in Belgium.
The Audit Court controls the budget for the federal parliament as well as for the various Flemish (and other Community and Regional) parliaments. It is headed by a College of 12 Councilors, 6 of whom form a Dutch speaking Chamber that oversees the Audit Court’s tasks for the Flemish parliament. The members of the Council are however appointed by the Chamber of Representatives of the federal parliament, for a renewable term of six years. The Audit Court’s routine tasks include the external administrative control on the budget expenditures and revenues (Van de Voorde and Stienlet 1995:147-155). Expenditures are controlled ‘ex ante’ by attaching a visa to the commitment or appropriation. These controls only focus on the legality of the expenditures. The revenues are controlled ‘ex post’, by checking the accounts of the ‘accountables’ (‘rekenplichtigen’), civil servants within the various departments and agencies who enter the accounting records. The Court is not allowed to question the political motivation of the budget expenditures although it can comment on their efficiency and effectiveness. Until the end of the 1990’s most of these controls however focused on financial and compliance issues. The Audit Court provides a summary of these controls in an annual ‘Book of Comments’ which it presents to the parliament. In addition it performs a jurisdictional function with regard to the civil servants who keep the accounts, and an informational-investigative role towards parliament. Since 1998, the federal parliament granted the Audit Court the authority to investigate the economy, efficiency and effectiveness of budget execution. Since then, the Audit Court has already performed several of such audits on the Flemish Government. This is likely to increase further in the years to come.

At the Belgian federal level, a budget (or any other) law approved by Parliament has to be signed (‘confirmed’) by the King and published. The King is therefore formally head of the executive as well as the legislative branch (although in principle he cannot refuse to sign a law approved by parliament). For the Flemish Community this confirmation procedure is executed by the Minister-President.

The main steps of the executive and legislative legislative budget formulation procedure are summarized in Figure 2. The extensiveness of the executive vs. legislative budget procedure immediately highlights the power division between the executive and legislative branch.

The draft legislation of the new Flemish budget and accounting system, indicates a desire to abolish the detailed ex-ante controls based on visa granted by the Audit Court. To avoid a control deficit, the budget are to be accompanied by multi-annual plans and budgets. In addition, policy reports are to be submitted shortly after the end of the budget year, so that they can be included in the budget control and budget formulation procedure of the following years. Especially regarding the measure to remove the ex-ante visum, there is still a debate going on between the President of the Flemish Parliament and the (executive branch) drafters of the reform legislation.
Figure 2: Overview of the Flemish budget procedure (Beckers 1991:508-522)

4.4 The extent of proscription and discretion in the participation and scrutiny systems

4.4.1 Executive or legislative domination?

The Flemish budget procedure, like its federal counterpart, is dominated by the executive branch. The priorities of the political parties, which have a strong influence in Belgian and Flemish political culture, are often conveyed through interaction between the party presidents and ‘their’ Ministers. As a result Committees, and individual members of parliament a
fortiori, have little impact in terms of strategic (budgetary) policy issues. Only in cases of political scandals, through ‘special inquisitory parliamentary committees’ may the Parliament have a more substantive impact on agenda setting or policy control. The executive domination was further increased by the Law of June 28, 1989 on the State Budget and Accounting System (B.S. July 18, 1989) which revised the Laws of 1846 and 1963. Since this law also applies to the Flemish budget and accounting system, it is relevant in order to obtain a good understanding of the (budgetary) power divide between the Flemish parliament and the Flemish government.

The Law of 1989 simplified the format structure (cf. infra) and transferred the budgetary ‘line-items’ to an annex, called the ‘Administrative Budget’. Since the 1989 reform, the Flemish executive budget proposal as presented to the Flemish parliament consists of four documents: the Budget Memorandum (‘Algemene Toelichting’), the Ways and Means Budget (‘Middelenbegroting’), the General Expenditure Budget (‘Algemene Uitgavenbegroting’). The latter consists of a series of legal articles, a budget table with budget articles and an annex called the Administrative Budget (‘Administratieve Begroting’). Prior to FY 1997 only the Ways and Means Budget and the General Expenditure Budget (the Administrative Budget non included) were presented by the Minister of Finance as a legislative proposal to the Flemish parliament. The Budget Memorandum elaborates on the general budget policy and contains narratives with details on each budget program. The Administrative Budget lists the line items of each budget program. Since the Flemish budgets in this period were in a transitional stage due to the ongoing state reform, the impact of this provision is less clear at the level of the Flemish Community. At the federal level, it reduced the number of budget items from approximately 2500 to 550 (Stienlet 1994:8). As a result of the 1989 reform the (federal and Flemish) parliament could no longer formally propose amendments with regard to the items in the Administrative Budget. Instead they had to pass a motion that the Administrative Budget reflected the general objectives of the Programs in the General Expenditure Budget (Geens 1990:88). In principle it could use this procedure to try and persuade a minister to adjust details in the administrative budget. However, since the Flemish coalition government normally has a parliamentary majority, Parliament typically votes majority vs. minority on the budget. The Flemish government has the authority to transfer money between accounts within the administrative budget. Above certain budgetary thresholds it has to inform the Audit Court and Flemish parliament, the latter of which has to provide its consent through a new motion.

It is mainly the Minister of Finance and Budget, in close coordination with the Minister-President, who determines budgetary policy goals. In the late 1980’s, the Minister-President also held the portfolio of Finance and Budget. Since the 1990’s both portfolios have been in the hands of the dominant coalition partner. Especially between 1994 and 1999, with the introduction of a new macro budgetary target system by the Minister of Finance and Budget, called the ‘Meesternorm’, Flemish budgetary policy was designed completely from within the Flemish government, and largely the Cabinet of Finance and Budget, but aligned to that of the federal government.
4.4.2    Top-down or bottom-up budgeting

In the first half of the 1990’s, with the adoption of the Meesternorm as of the fiscal year 1994, the Flemish Minister of Budget and Finance developed a strong tool that supported the budget negotiations with the other members of the Flemish (coalition) government and helped to curb expenditure growth. In this sense the Meesternorm helped to centralize the budget procedure, and reduced ‘bottom-up’ negotiations on new budget and policy proposals to the free policy margin. Also the ‘rebudgeting’ of expenditures in various policy domains increased the control by the Minister of Finance and Budget over expenditure mechanisms and added to the centralization of budget authority in the hands of the Flemish Minister of Finance and Budget (Vlaamse Raad 1992c:5-6).

After the shift in political majority in 1999, another budgetary macro target was developed by the new government, which provided more discretion to the other ministerial portfolios. There was therefore some decentralization of the budget procedure within the executive branch, at the political level.

Within the MFC the budget procedure is rather top-down. After the establishment of the matrix structure in 1991, the College of Secretary Generals (CSG) installed a procedure that increased its control over the internal allocation of resources, in order to detect ‘interdepartmental synergies or differences’. (Demeester 1992a:13). The administrative units within the MFC were to assess their needs and submit these to the CSG, under coordination of the Budget Division (former Budget Direction). In practice this procedure left relatively little managerial autonomy and budgetary decision making at the administration-level, although this was the basic organizational unit expressed in the Flemish budget (cf. infra under ‘format structure’ and ‘format content’). This created a gap between the locus of control (CSG) and the focus of reporting and accountability to Parliament (administrations). It also resulted in a significant proportion of the MFC’s budget being allocated under a CSG-controlled ‘resource program’, completely disconnected from the activity programs in the budget.

Although the 2003 ‘Better Government Governance-reform’ revolves around restoring the ‘primacy of politics’, the preliminary provisions of the new budget legislation contain several measures to increase budgetary autonomy of the agency heads. The future degree of budget centralization within the executive branch, will depend on the further implementation of the new regulations.

4.4.4    Mandatory or discretionary budgeting?

In 1993 the proportion of mandatory spending represented around two thirds of the Flemish expenditure budget. This is comparable to for instance that of the U.S. federal government. The high proportion of mandatory spending however should be interpreted differently in the Flemish context. In the Flemish political system, the legislative branch (Flemish parliament) is dominated by the executive branch. The Flemish government can more easily change expenditure mechanisms than the U.S. federal executive branch can. Mandatory spending is
in other words ‘more discretionary’ in the Flemish Community than it is in the U.S. federal government. The Flemish government usually does this by introducing a ‘Proposal of Decree to accompany the Proposal of Budget Decree’, in which all changes to existing legislation are grouped. The Flemish parliament typically criticizes these strategies of altering legislation, since they often (are designed to) evade strong legislative control.

4.4.5 Frequency of the budget procedure

According to the Constitution, parliament has to convene annually to approve taxation and budget legislation (art. 171 and 174). The Special Financing Act transferred this rule to the Regions and Communities (art. 50). In practice however this procedure is conducted with a higher frequency. In addition to the procedural steps outlined in Figure 2, during the first three to four months of the fiscal year the Minister of Finance and Budget conducts a budget control in which he updates the economic, revenue and expenditure parameters of the budget, and during which reallocations within the boundaries of the Administrative Budget may be accepted. In principle new policy proposals ought to be submitted as part of the budget formulation in May-June, rather than during the budget control earlier that year (Demeester 1992b:3). In practice it has depended on the ‘budgetary orthodoxy’ of the government to which extent this principle was respected. However, since these updates and revisions require alterations in the Budget Decree for the running fiscal year, both the Flemish government and the Flemish parliament are involved in budget formulation and control on a semi-annual rather than an annual basis.

4.5 The levels and nature of public involvement in the processes.

The Belgian and Flemish political system has traditionally been one in which representatives of labour unions, employer organizations, health insurance providers and other professional and ideological interest groups had a strong voice (e.g. FPA’s of type B). Also the fact that political party structures, with which many of these stakeholders are strongly interwoven, have an important impact on agenda setting has enabled this. With the adoption of the Meesternorm in the mid 1990’s, which was more strict than the budget standard set by the Social Economic Council of Flanders, the Minister of Finance and Budget ‘closed’ the debates on a larger part of the budget than had been previously the case. The combination of top-down budget standards and rebudgeting of certain expenditure mechanisms referred to earlier, thus closed off a larger part of the budget from the influence of various interest groups, but on the other hand also ‘opened’ the budget procedure by making it more transparent.

One of the three pieces of reform legislation which is to implement the 2003 ‘Better Government Governance’-reform, addresses the role of these advisory bodies. In addition to the Social Economic Council for Flanders, areas of environmental policy, health, culture and welfare policy have advisory bodies. The general tendency of the legislation is to reduce the influence these bodies, and restore the ‘primacy of politics’.
4.6 Any evidence on the practical implementation of such processes, including variances and unexpected outcomes, notable successes (or failures), critical incidents or other relevant empirical data.

4.6.1 The dominant functions of the Flemish budget process

Control over the revenue side of the budget as well as monetary and macro-budgetary policy have largely remained federal competences. As a result, Flemish macro-budgetary policy has strongly mirrored federal policy and priorities. The political culture of party politics and consensual elite decision making (e.g. symmetrical coalitions in the federal, regional and community governments) have supported the alignment of federal and Flemish budgetary policy. During the 1990’s there was a consensus between this elite, senior officials, and experts in the National Bank and the High Council of Finance on the necessity of Belgium entering the European Monetary Union, as outlined in the Treaty of Maastricht in 1992. With the Maastricht-criteria as a general framework, and under the strong influence of Ms. Demeester – De Meyer, Flemish Minister of Finance and Budget in the consecutive Van den Brande – governments between 1991 and 1999, the Flemish government adopted a very orthodox budgetary policy.

The budgetary discipline under the Meesternorm was more strict than that under the SECF-budget standard used by the previous Flemish governments. In the long run it was even more strict than the targets set by the High Council for Finance, which also advised federal budgetary target setting. With the combination of the Maastricht-criteria, the predicament of the Belgian public finances and the ‘Meesternorm’ as Ms. Demeester’s political priority, the dominant budget function between 1992 and 1997 was to keep a tight rein on expenditure growth. It was the Flemish equivalent for the federal goals of realizing savings, in order to reduce the budget deficit and public debt and ensure Belgian membership of the European Monetary Union in 2000. In 1997 this policy resulted in a Flemish surplus, and a decline in the Flemish public debt in absolute numbers. Since then, the Flemish budget has had a surplus.

After 1997, and especially after 1999, budgetary spending was given more leeway again, although the budget surpluses have persisted. The new Flemish government since 1999 never linked this to a systematic approach in terms of planning policy goals or reviewing performance, unlike most other (surrounding) OECD-countries. The new budget and accounting legislation which is in preparation however does introduce systematic multi-year budgets and policy plans, together with annual results-oriented policy reports. These innovations refer to some managerial innovations that were experimented with, within the executive branch, such as strategic planning, performance measurement and performance budgeting (Van Reeth 2002).
4.6.2 Discourse of the budget negotiations

The official discourse of the Flemish Minister of Finance and Budget since the early 1990’s has been dominated by the macro-level savings discourse of the Maastricht criteria. Within this broader framework, the conversations during budget reviews (technical bilaterals) focused primarily on whether administrative entities’ budget proposals remained within the expenditure growth limits set by the ‘Meesternorm’. Once this budget standard had been formally adopted by the Flemish government in the Spring of 1994, the Flemish Minister of Finance and Budget was able to increase her control over the ‘political bilaterals’ within the Flemish government as well. During the technical bilaterals for FY 1999 (June-July 1998), the researchers observed that references to policy objectives or performance indicators were more the exception than the rule. This was not merely a matter of availability of good cost and performance data. The timing within which these budgets were reviewed would have precluded more than fragmentary review of other than across the board budget targets.

Experiments were done between 1995 and 1997 to include elements of performance in the technical bilaterals. These were based on zero-based budgets conducted by the Inspectors of Finance, and on performance based budgets compiled by some pilot agencies. This however was done primarily as part of savings exercises. Moreover, they were hindered by the low validity of the cost and performance data, and by the unavailability of reliable and agreed-upon performance standards.

4.6.3 The format of the Flemish budget

4.6.3.1 Format Structure

In the first half of the 1990’s the Flemish government adopted the federal ‘program budget structure’ (Vlaamse Raad 1992c:9). This new format structure consisted of 4 tiers: Departments, Organization Divisions (‘organisatieafdelingen’), Programs (‘programma’s’) and Budget Accounts (‘basisallocaties’ or ‘begrotingsartikelen’). There is a 1:1-relationship between the Organization Divisions in the budget and the organizational structure of the MFC at the Department and Administration level. Also the FPA’s have their own budget. At a lower level of detail (Programs) the budget’s format structure does not match the organizational structure (Divisions). The ‘program budget’ of the Flemish Community thus uses an organization based structure as its first criterion of classification, and a functional or program based structure as its secondary classification. Only the first three tiers are presented in the General Expenditure Budget. The fourth tier (budget accounts) is, as explained earlier, detailed in an annex, the Administrative Budget. For some programs that cut across Organization Divisions there is a ‘horizontal program’ code. (e.g. science policy, external affairs). The horizontality however was often more interpreted from an input-perspective than from a policy- or outcome-perspective (e.g. investments, ICT and office equipment, financial costs) (Geens 1989:8).

The ‘economic classification’, which was the format structure prior to 1990, was not entirely abolished. It was retained as a secondary system classification at the level of the budget accounts, in order to consolidate Flemish budget numbers with the other entities of the central
government into the National Accounts for European reporting and economic policy purposes. The main elements of the format structure as well as the relationship between the economic classification and the new (organizational + program based) format structure is presented in Figure 3.

### 4.6.3.2 Format Content

Despite the shift from a pure line-item structure to program structure, the program content of the budget has basically remained input-oriented throughout the 1990’s. In the Budget Memorandum the Flemish government in principle had to provide information to the Flemish parliament on the general objectives of each activity program, as well as an extensive (quantitative) explanation for each program activity, the cost of these activities as well as the expected (quantified) results (Geens 1990:89-90; Stienlet 1992:12). The Budget Memorandum did provide for each budget program ‘(a) general objectives’, ‘(b) budget accounts’, ‘(c) comments’ and, for some programs an extra section ‘(d) policy accents’ (Vlaamse Raad 1992c). The general objectives typically referred to statutory legislation that authorized the program’s activities. The budget accounts detailed the lump sum of the program to personnel, rent, office equipment and other line-items. In some cases the sections ‘comments’ and ‘policy accents’ contained a brief narrative on the programs content. Nowhere in the Budget Memorandum, Administrative Budget or General Expenditure Budget, could a systematic indication of policy objectives, measures or indicators referring to outcomes, outputs, processes or program costs be found (Vlaamse Raad 1992b; Vlaamse Raad 1992a; Vlaamse Raad 1992c). The information content of the program structure was further hollowed out by the existence of so called ‘counter programs’ and ‘resource programs’, which were also typical of the budget at the federal level (Stienlet 1992:15).

![Figure 42: Format Structure of the Flemish Program Budget in the early 1990’s](image-url)
Several programs that were classified under an Organization Division within the MFC, consisted for a large part of money transfers to an FPA or beneficiaries outside government. In these instances the program purpose was reduced to that of a cashier behind a counter, to register the amount of money that was spent. The ‘resource programs’ only consist of personnel costs. Some Organization Divisions consist only of these types of programs. Stienlet referred to them as ‘headless chickens’, in that they have a body (budget) without any head (program objective) attached to it. In the MFC’s budget for FY 1993 the resource program was centralized in Organization Division 99 ‘College of Secretary Generals’ (Vlaamse Raad 1992a:115). Managerial control over the personnel budgets was therefore centralized in the CSG, leaving only little managerial & budgetary autonomy for the Organization Divisions as defined in the budget, as the Administrations.

The Flemish budget therefore remained, although structured along Organization Divisions and Programs, a line-item budget in which the inputs (budget accounts) were in no substantial or transparent way linked to the program’s activities, outputs and outcomes. It was basically a line-item budget presented in a program structure.

During the 1990’s Ministers increasingly began to submit policy letters to the Flemish parliament. However, these usually were, and still are, not really related, both in terms of timing and structure, to the budget documents submitted to parliament. As indicated earlier, the new budget and accounting legislation intends to increase the information content of the budget submitted to parliament, by including in the budget memorandum more systematic performance and cost data, generated by the executive branch’s modified accrual and analytical accounting system.

With regard to the format content used in the budget negotiations within the Flemish government, the budget instructions required already the early 1990s of each Department of the MFC the following budget justifications: general policy lines of the department; tasks of the department with a link to the activity programs; precise and, when possible, quantitative goals for each activity program; indicators to assess the cost of the programs; information on the results achieved during the previous years (Geens 1991:9; Demeester 1992a:4). At the time of our empirical research the budget proposals submitted for these years were not any longer available, which precluded a thorough document analysis. Several elements suggest however that the information requested was not submitted on a government wide basis, if at all. The ‘templates’ that accompanied the budget requests matched the rather general categories of the Budget Memorandum, rather than those just mentioned, and provided very little space to fill in the information (Geens 1991: annex 3). Also the Budget Memorandum did not contain these extensive justifications, although the Budget Instructions had announced the justifications would be used for this purpose (ibid., p. 9 and p.4). Interviewees from the Inspectorate of Finance and ABAFIM confirmed to us that performance information was not systematically available, let alone used.
4.6.3.3 Method of Charging

The charging of the budget execution in the accounts occurs in two stages. A first entry is made at the time an administrative entity (the MFC or an FPA commits itself to an expenditure ‘for a specific purpose’, which actually means ‘on a specific budget account’. This registration is called ‘commitment’ (‘vastlegging’). A second registration is made when the entity issues the order to pay (‘appropriation’ or ‘ordonnancerging’). The method of charging is therefore not a pure cash-based registration, but rather based on ‘commitments’ or obligations (verbintenissen). The MFC therefore in the early 1990’s did not make charge expenditures based on economic transactions, as is commonly practice in the accrual accounting systems of both private sector and public sector companies.

In 1996-1997, legislation was passed for the FPA’s to implement a modified accrual accounting system, although their budget procedure remained on a cash and commitment basis. In 2001 also the MFC moved towards a modified accrual accounting system. So far the budget process has been unaffected by these reforms. The reform legislation which is being prepared for early 2003 at this time revolves around the debate to what extent modified accrual accounting and budgeting should be considered on a governmentwide basis.

4.7 Reasons for main differences with Scotland (including where necessary any administrative, cultural or other differences).

Flemish budgetary policy, as well as the characteristics of the Flemish budget procedures, have until very recently strongly mirrored those of the Belgian federal government. In that sense Flanders inherited in the early 1990’s a more ‘latin’ tradition towards public management and public budgeting, than may be adhered to in the Scottish context. Throughout the 1990’s however the Flemish government has been taking various initiatives to modernize its policy and management cycle along the lines of more innovative OECD-countries, notable the Anglo-saxon and Scandinavian ones (Bouckaert and Auwers 1999). However, with regard to the financial management and budget cycle, it had only limited authority to do so. Budgetary policy making remained withing the European and federal macro-economic, fiscal and monetary policy frameworks. In terms of altering its budget and accounting system, the basic budget legislation remained, to this day, ‘untouchable’ for the Flemish parliament. As a result, experiments to shift to a more performance-oriented format were by necessity limited to budgetary annexes, and received little attention from policy makers. Also, with the design of the budget legislation still being a federal competence, these reforms never received strong attention from the members of the Flemish parliament. Only since mid 2002, with this transfer of competence coming within sight, the Flemish parliament became more actively involved in this debate.

In addition, the change in political majority in 1999 shifted the attention of political leadership to a complete restructuring of the executive branch, which has been in preparation since early 2000. This interrupted or completely halted the development or further
implementation of several managerial reforms, including the performance oriented budget reforms.

A third element contributing to the non-continuation of the performance budgeting pilots, was the lack of good cost data. With the introduction in 2001 of a modified accrual accounting system in the MFC, the prospect of adding an analytical component which could link cost data to process and performance data, has come one step closer. In many of the FPA’s more advanced budget and accounting systems were introduced as of 1996-1997. Some of these agencies have been evolving toward accrual accounting and budgeting practices for internal management purposes. However, the political level so far has shown little interest in these reforms.

To conclude, the next six months will be crucial for the immediate future of the Flemish financial policy and management cycle. Depending on whether (1) the Belgian federal parliament passes the necessary framework legislation and (2) the Flemish stakeholders in the legislative and executive branch reach a consensus on which reform trajectory is desirable and feasible, the Flemish budget, accounting and audit procedures and formats may significantly change – or not.

Reference List


———. 1994. "Begroting." cursustekst uit de vormkingscycle van A.D.S.V.


Prof Francesc Pujol  
Prof Juan Carlos Molero  
University of Navarre

5.1 Methodological approach and key institutional characteristics

This report analyses the Spanish experience concerning the budget setting and financial scrutiny. We have decided to show two particular regional cases: the Foral Community of Navarre and the Autonomous Community of Catalonia. As we will show in this introductory point, both regions possess a strong identity, based in historical and cultural background. To our point of view, these two communities, together with the Basque Country and maybe also Galicia are with no doubt the most interesting referents to the Scottish political and institutional reality. Due to space constraints we have focussed our analysis primarily to the Navarre case, and we have completed it by the contrast offered by the Catalan case, restraining ourselves to just show the differences without entering into the description of the details of the Catalan functioning.

We have opted to strongly orient our research project to the interviewing of the main actors in the budgetary process, that is, representatives of the executive and legislative branch and the external audit body. We are obliged to show our sincere gratitude to the persons mentioned above. The time constraint imposed to us to complete this report has obliged us to organise these interviews with a very short delay, forcing in most of the times to our respondents to offer us part of their very precious time in this critical time of the year as most of them are precisely now involved in the budgetary process. All of them assume direct budgetary responsibilities, being in some cases the highest authority in their respective field. We can not overstate our gratitude for their collaboration to the content of this report.

In Spain, the Constitution of 1978 establishes a special kind of organisation for the Spanish State, neither purely federal, nor centralised; it is called "Cooperative Federalism", in which the main new element is the birth of the Autonomous Communities. In addition to the provinces and towns, the Autonomous Communities constitute the basic structure of the territorial organisation of the State (Molero, J.C., 2001, page 506). From late seventies to nowadays, and rooted on the Constitution of 1978, it starts in Spain a really active process of decentralisation\(^{23}\) of competencies from the Central level of Government to the low level of government, meanly to the Autonomous Communities\(^{24}\). Together with the transfer of the


\(^{24}\) Until recent years, the Autonomous Communities have received from the Central Government mainly competencies on spending. The percentage of the consolidated total spending of the Public Administrations controlled by the Central Government decreased from 72.6% in 1984 to 51.6% in 1998, while these percentages surged from 14.4% in 1984 to 31.6% in 1998 for the Autonomous Communities.
economic power, the different regions received also the capability of develop their own Governments and Parliaments.

From the very beginning of the decentralisation process, there were two different groups of Autonomous Communities. On one hand, the ones with high level of competencies (seven regions), received the main and more important competencies (like education or health) during the first years of the decentralisation process. On the other hand, the Autonomous Communities with less historical and cultural background (ten regions), were called regions with low level of competencies, and they received that competencies from the Central level of government after a longer period of time.

With a extension of 10.421 square kilometres and around 520.000 inhabitants, the Autonomous Community of Navarre (Comunidad Foral de Navarra), together with the Autonomous Community of País Vasco (Basque Country), has a special status and some proper privileges (fueros) among the set of regions in Spain. The law of October 25th, 1839, confirmed the fueros navarros, being the origin of the foral system. In this sense, the first Agreement (Convenio) among Navarre and the Central Government was already signed in 1841 and updated until nowadays. Because of this Convenio, Navarre has its own income and spending competencies. That means that the Comunidad Foral de Navarra almost does not have dependence from the Central Government, neither regarding expenditures, not concerning incomes: Navarre has its own system of taxes in order to finance its spending. As Navarre benefits from several general public services provided by the Central Government (defence, external relations, etc.), it has to give some yearly amount of money to the Central State (Aportación) in order to contribute to its financing.

The great independence of Navarre from the Central Government justifies that this Autonomous Community is one of the regions with more real capability to prepare and approve its own annual budget. We will go deeper in next section studying how Navarre elaborates its budgetary project, but previously we will have to offer a brief description of some key facts.

The study of the budgets of Navarre from the last ten years gives us a general idea about the main kind of expenditures and the different classes of incomes in order to finance that spending. Concerning incomes budget, the principal sources come from taxes: Personal Incomes Tax and Value Added Tax. Regarding spending, education and health represent the main expenditures. Within the budget for the year 2001 these two expenditures represented almost 38% of the total spending in Navarre.

---

25 Among this seven regions, there are two Autonomous Communities (Basque Country and Navarre) with competencies on income, having the capacity to collect their own taxes.

26 The last budgetary years show how these two taxes usually represent more than 50% of the total income sources.
The political party in the Government of Navarre since 1999 is *Union del Pueblo Navarro* (UPN), which is a regional party linked to a national party called *Partido Popular* (PP)\(^\text{27}\).

The first democratic Parliament of Navarre was constituted in 1979 (Royal Decree 121/1979 of January 26\(^{th}\)), being now during its fifth legislature: 1999-2003. Nowadays, the parliamentary groups represented in the Parliament are:

<table>
<thead>
<tr>
<th>Political Party</th>
<th>Initials</th>
<th>Number of seats</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Union del Pueblo Navarro</em></td>
<td>UPN</td>
<td>22</td>
</tr>
<tr>
<td><em>Partido Socialista de Navarra</em></td>
<td>SPN</td>
<td>11</td>
</tr>
<tr>
<td><em>Izquierda Unida de Navarre</em></td>
<td>IUN</td>
<td>3</td>
</tr>
<tr>
<td><em>Convergencia de Democratas de Navarro</em></td>
<td>CDN</td>
<td>3</td>
</tr>
<tr>
<td><em>Eusko Alkartasuna/Partido Nacionalista Vasco</em></td>
<td>EA/PNV</td>
<td>3</td>
</tr>
<tr>
<td><em>Batasuna</em></td>
<td>EH</td>
<td>8</td>
</tr>
<tr>
<td><strong>Total of seats</strong></td>
<td></td>
<td><strong>50</strong></td>
</tr>
</tbody>
</table>

The *Camara de Comptos* (General Auditing Office) is entrusted with the supervision of spending, budget management, and advises Parliament on financial issues. It is a dependent body of the Parliament. It is directed by a president elected by the Parliament of Navarre, but it does not represent any political parties’ interests. It comprises a general secretary, lawyers, auditors with their personal auditing teams, financial advisers, and office personnel.

The *Camara de Comptos* fulfils its responsibilities by writing reports which analyse the administration of public funds, and also suggest ways to improve spending.

5.1.1 **Catalonia.**

With an extension of 31,930 square kilometres and a population of more than six millions of inhabitants, the Autonomous Community of *Catalonia* is one of the regions included within the group of Autonomous Communities with *high level of competencies*, which was mentioned above. The competencies regarding spending capability are presently more or less the same than the ones explained for the Navarre’s case. But, the main difference with respect to Navarre is that Catalonia does not have the same historical background. This implies that there is not here any kind of *foral* system that allows so great financing independence from the Central Government: Catalonia does not have its own system of taxes in order to finance its spending.

\(^{27}\) Presently, the *Partido Popular* is governing the state of Spain.
Taking into account the new legislation approved by the Central State in December 2001 (Law 21/2001), since 2002 Catalonia will increase the percentages of autonomy in the main taxes collected by the State. For instance, it will manage the 33% regarding the Personal Incomes Tax and the 35% concerning the Value Added Tax. But, even with this increase, Catalonia is not able to manage its own income, because a great percentage of that income is still coming from the transfers of the State. We could say that for the year 2001 the financial autonomy of Catalonia was around 30%, while this percentage for the case of Navarre is 100%. Regarding spending both regions are able to manage practically the 100% of their expenditures.

As for the case of Navarre, the main institutions to be enlightened in Catalonia are:

- The Government of Catalonia (Generalitat de Catalunya).
- The Parliament of Catalonia.
- The General Auditing Office of Catalonia (Sindicatura de Comptes de Catalunya).

The present composition of the Parliament, following the last general elections in 1999 is as follows:

<table>
<thead>
<tr>
<th>Political Party</th>
<th>Initials</th>
<th>Number of seats</th>
</tr>
</thead>
<tbody>
<tr>
<td>Convergencia i Unio</td>
<td>CiU</td>
<td>56</td>
</tr>
<tr>
<td>Partit Socialista de Catalunya</td>
<td>PSC</td>
<td>52</td>
</tr>
<tr>
<td>Partit Popular</td>
<td>PP</td>
<td>12</td>
</tr>
<tr>
<td>Esquerra Republicana de Catalunya</td>
<td>ERC</td>
<td>12</td>
</tr>
<tr>
<td>Iniciativa per Catalunya - Els Verds</td>
<td>IC-V</td>
<td>3</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>135</td>
</tr>
</tbody>
</table>

5.2 **Budgetary process and financial management**

The main law which describes the budgetary process in Navarre is the "Foral Law 8/1988, December 26th, of the Public Finance of Navarre". Other important laws for taking into account are:

- The Economic Agreement among the Foral Community of Navarre and the Central Government: "Law 28/1990, December 26th".
- The Reintegration and improvement (Amejoramiento) of the Foral Regime of Navarre: "Organic Law 13/1982, August 10th".
The budgetary process in Navarre includes three main steps: the elaboration of the budget, the parliamentary discussion of the budget, and the approval of the budgetary project by the Parliament.

5.2.1 Stage I (April-October): elaboration of the draft budget.

The elaboration of the draft budget is just a competence of the Government of Navarre, without any direct influence or participation of the Parliament in this stage.

The main financial planning of the budget is called "Medium term Economic Plan", which is approved by the executive power for a period of four years in order to offer a control framework for each annual budget. This economic plan is updated each year and is ready around April.

From June to August the Economy and Finance Department elaborates the first income estimates for next budget, while this Department also receives the first spending assessment from the rest of the Departments of the Government regarding next annual budget.

During the first week of September, the Government approves its budget target setting, called: "Economic and technical guidelines for the budget". The Ministry (Consejero) of the Economy and Finance Department is in charge to propose these guidelines to the Government. From the beginning of September to the end of October, the different Departments review their former spending proposal taking into account the mentioned guidelines.

An important issue which takes place around October during the elaboration of the budget in Navarre is the "policy of agreements" among the political party in the Government and other political parties. These kind of agreements are needed in order to present a budget to the Parliament with some political support. The agreements have become an usual instrument for the executive power, because from the first democratic election in 1979 to the last one (1999), any Government has won the elections with a sufficient majority to govern. Then, agreements have been necessary to govern and to approve the annual budget. For instance, and regarding the elaboration of the budget for the year 2003, the political party in the Government (UPN) has already signed, on October 18th 2002, an agreement with the political party CDN.

In order to promote a public involvement in the elaboration of the budget, the Government presents for consultation the first draft of the budget to some external bodies before sending the document to the Parliament. The main groups to be consulted are:

- The Economic and Social Council of Navarre
- The Environmental Council
- The Foral Commission of Local Regime
5.2.2  Stage 2 (November-December): debate at the Parliament.

The 1st of November, the budget project has to be at the Parliament. As we pointed out above, the budget usually arrives to the Parliament with some agreement between the political party in the executive power and other/other political parties. Sometimes, the executive will have to look in this stage for more agreements in order to approve the final document of the budget at the Parliament.

After the explanation of the budget by the Minister of the Economy and Finance Department at the Parliament, the different parliamentarians groups present the different amendments to the budgetary project. The Parliament studies first the global amendments to the whole draft budget. Usually these amendments do not progress. Afterwards, the Finance Committee votes the different partial amendments to the budget, which will be voted again at the Parliament.

The partial amendments approved by the Parliament will be included within the budgetary project by the Economy and Finance Department of the Govern of Navarre.

5.2.3  Stage 3 (last days of the year): approval of the budget by the Parliament.

Finally, the budgetary document will be ready to be applied next year if the executive power has finally majority enough at the Parliament. Usually, the final approval of the budget in Navarre will need more agreements among the executive and other political parties in this stage if the ones at stage 2 were not enough.

If the "policy of agreements" prosper, the budget will be approved between December 29th and December 31st.

5.3.3  Remarks about the budgetary process in Navarre:

1) The executive power (the Government) has more technical support and qualified staff that the Parliament for being in charge of the elaboration of the next year budget. We have to enlighten here that the financial planning of the Government, implemented by the "Medium term Economic Plan", is even more active than Central State. Navarre started the mentioned plan six years ago, while the Central Government is using for first time this kind of financial planning during the year 2002.

Even with the agreements in this stage, sometimes the budget is not approved, being extended in time last year budget. For instance, the budget for year 2002 was not approved at the end of the year 2001. And at this moment the budget for year 2003 will need also more agreements to be approved.
2) The Government counts in a certain extent with the public involvement during the budget process, because the executive power receive the report from different external and interested bodies: the "Economic and Social Council of Navarre", the "Environmental Council", and the "Foral Commission of Local Regime". Moreover, the "policy of agreements" is at the end another way to be more "participative" during the approval of the budget.

3) Regarding the modifications of the budget during the execution of the project, the Government is able to approve only some of them, because most of the modifications will need the approval of the Parliament in "primary legislation".

4) The Parliament of Navarre is quite rigid with respect to the spending auditing in its financial aspects.

Catalonia follows a very similar pattern concerning the different stages of the budget process.

5.4 Parliament involvement

Like with the other points, we will concentrate our exposé by referring basically to the Navarre case, and we will point out marginally to some specific references to the Catalan case, as it behaves basically according to the similar legal competencies concerning the budgetary process.

The basic law determining the rights and competencies of Navarre (Ley Organica de Reintegracion y Amejoramiento del Regimen Foral de Navarre, L.O. 13/1982, known as the Ley de Amejoramiento or Amejoramiento Basic Law) establishes in its article 11 that "The Parliament of Navarre represents the Navarre people, exercises the legislative power, approves the Budget and the Public Accounts of Navarre and controls the action of the Diputación Foral (executive body), and carries out all other functions provided by law".

As pointed out in the precedent section, the Parliament in Navarre is allowed by law to intervene in the budgetary process when it receives the draft budget from the Executive, no later than November 1st. This corresponds to the second stage in the Scottish framework (Draft Budget Stage).

This means that the elaboration of the budget draft is in Navarre an exclusive competence of the Executive body (art. 18.1 L.O. 13/1982, Amejoramiento Basic Law). This fact supposes a huge legal difference compared to the Scottish case, where the Parliament, basically through the Finance Committee, is asked to intervene in the Initial Consultative Stage. We will see soon nevertheless that the Navarre Parliament counts with indirect means to influence the Executive in its role of definition of the performance target setting.

When the Government submits the budget draft to the Parliament, it has also to present several accompanying informative documents (art. 34.2 LF 8/1988, Navarre Public Finance Law):
• A report concerning the situation and perspectives of the economy and the finances of Navarre.

• An explanatory memory about the draft of the budget contents, with a description of the main objectives of each program and the main modifications compared with the actual budget of the current year.

• State of execution of the current Budget concerning the first three trimesters of activity, and the forecast concerning the whole budgetary year.

Even if the Parliament does not intervene directly in the establishment of the budgetary objectives and performance target setting, it has to receive it from the Executive body in a clear and transparent way with the documents provided to the Parliament. Then, the Parliament debates not only about the monetary sums allowed to each department and section, but it is also expected to consider the acuity of the "main objectives of each program", and its consecutive financial consequences. The Parliament pursues this objective taking into account a severe financial restriction: if a proposal of modification concerning the sums allocated to a particular programs supposes an increase of financial needs, the approval of the Executive is needed for this modification to enter into force.

The Parliament submits the draft budget to the Finance Committee, altogether with the accompanying documents. As indicated in the first section of this report, the Finance Committee leads the debates within the Parliamentary framework, and produces a report which is submitted to the Parliament for a discussion in a plenary meeting.

The Finance Committee counts with several means to perform its duties in the budgetary process. First of all, it can request, as all the Subject Committees, the presence of the Ministers of any Department of the Executive (Consejeros), or any other civil servant, in order to be questioned during the works of the Finance Committee. The Finance Committee can also request to the Executive body any information considered useful (Art. 32, LO 13/1982, Amejoramiento Basic Law). The Finance Committee may ask for the presence of representatives of other public administrations (Local governments, Central government), but these later are allowed to refuse their participation into the budgetary process.

According to the advice of some persons interviewed, it seems that the utility of such public appearance of members of the Executive body in the framework of the Finance Committee debates depends dramatically of its public nature. Nowadays the accredited press has accessed to these auditions, while these sessions were closed to the public in the past. It seems paradoxically that the openness of these seances tends to weaken the Parliament’s interests, as the parliamentarians can obtain less easily the requested information because the Executive representatives tend to answer more in political terms by pointing out themes which can be of interest for the press, even if this sometimes may not give satisfaction to the questions raised by the members of the Committee. In the past, when these auditions were closed to the public, they tended to be more informative and useful for the budgetary tasks of the Finance Committee.
The Parliament and the Finance Committee can also count with the financial expertise of the Audit body (Camara de Comptos). Effectively, the Law which regulates the functioning of the Camara de Comptos stipulates (art. 4.1.b., LF 19/1984, Reglamento de la Camara de Comptos) that one of the functions of the Camara de Comptos, aside with its primary scrutiny goal, is to provide assessment to Parliament in economic and financial issues. It will be shown below that the Camara de Comptos has a capital of technique expertise which often is incomplete at the Parliamentary level. Nevertheless, even if the Finance Committee could theoretically count with this invaluable technical help, the recent practice shows that the Finance Committee does not tend to ask for financial or economic counsel to the Camara de Comptos for issues directly related to the annual budgetary process. The Parliament uses mainly this source of support when asking to the Camara to provide legal or technical reports needed for the discussion of new law proposals.

It is a shared view that the Parliament is in a weak position compared to the Executive body in the Navarre budgetary process. But, in contrast with what seems to be the Scottish case, it does not appears to exist a strong political will to increase its share of power in this specific issue, even among the rank of parliamentarians.

One of the most powerful influence of the Parliament is achieved in an indirect way, through the Camara de Comptos action. As stated before, this audit body depends directly to the Parliament, and all the reports produced in the fulfilment of its legal mandate are submitted to the Parliament. The Camara de Comptos Law stipulates (LF 19/1984, art. 4.1.a) that one of the specific functions of this organ is to "control the public accounts and the economic management (gestion economica) of the public sector in Navarre". The Camara de Comptos has stressed since the beginning of the nineties its responsibility in its ex post control of the public sector management, not restricting it to the financial and accountancy items, but moving forward to analysis in terms of economy, efficacy and efficiency (LF 19/1984, art. 9. 1 and 2).

The program of public policy evaluation has been translated into a significant number of reports covering different departments, agencies, transversal issues, etc. One type of them is of special interest for this study. It refers to a report elaborated each four years concerning the follow up of the recommendations made by the Camara de Comptos to the Government. This report, received by the Parliament, becomes a strong tool for the Parliament to politically reinforce the control and orientation of budget and performance target setting. More specifically, the Parliament can stress the need for the fixation of performance targets in the last of these reports (covering the 1995-1998 action), even if this task is a direct competence of the legislative. effectively, several of the recommendations of the Camara de Comptos were directly oriented to this very point:
• Recommendation number 30: "to dictate the needed instructions to enable a correct definition of objectives and benchmarks".

• Number 32: "To design an uniformed and normalised procedure in order to enable the verification of the degree of attainment of the objectives established, and to analyse the reasons of the eventual deviations produced".

• Number 33: "To define, for its inclusion in the Public Accounts, information relative to the degree of accomplishment of the different programs".

• Number 35: "The Government of Navarre should reflect about the present budgetary techniques used for its management, in order to assess if they are adequate tools for a public management which has to be guided by the principles of efficacy, efficiency, economy and transparency. In this process of rethinking should be implied all interested bodies (estamentos publicos), particularly the Parliament.

In conclusion, even if the formal direct role of the Parliament in Navarre is rather limited at the budgetary process, and even less concerning the definition of budgetary objectives, it counts nevertheless with a number of significant institutional tools allowing it to attain this goal, in a way that it is probably adapted with the relative technical and institutional weakness related to the executive body.

Concerning the Catalan case, it can be stated that in the present time the role of the Audit body (Sindicatura de Comptes) appears to be less determinant in the scrutiny process. Three points could help to explain this relative weakness of the Catalan system:

• First, the level of dependence of the Sindicatura de Comptes related to the Central Government Audit body (Tribunal de Cuentas) is higher than it is the case of the Navarre Camara de Comptos, mainly due to its original legal birth in the 1980s, itself influenced by historical background.

• Second, while in Navarre the Camara de Comptos is an unipersonal body, it is a collegial one in the Catalan case. This last institutional option, shared with other Autonomous Communities, can produce an interference of political considerations in the work agenda of the Audit body, negatively affecting the quality of its scrutiny purpose.

• Finally, the reports produced by the Catalan Sindicatura de Comptes have a minor political impact because they are not presented in plenary sessions of the Parliament, as it was the case in Navarre, but are just dealt by a specific Parliamentary Committee. Transparency and political and public awareness are thus proportionally decreased.
5.5 **Extent of proscription and discretion in the participation and scrutiny systems**

We have considered this issue in the first point of this report, and will be further developed in the next point of analysis, as far as participation is concerned.

Similarly, we have treated the characteristics of the scrutiny system in the precedent point, when speaking about the role of the external audit bodies, represented in Navarre by the *Camara de Comptos* and in Catalonia with the *Sindicatura de Comptes*.

We have seen that in the Navarre case, the Parliament has not a direct influence on the scrutiny of the performance budget target, but can in practice influence on an indirect way, primarily through the report concerning the 4-year period accomplishment by the government of the *Camara de Comptos* recommendations.

In Navarre as well as in Catalonia it exists in the Government specific services charged to fulfil an internal control oriented basically to accountant and financial issues. It must be noted that the *Generalitat* of Catalonia has also created a Responsible for the Budgetary Evaluation, function which enter in the field of internal scrutiny of the objectives and targets. Its too recent creation does not enable us to extract any conclusion about its practical role.

5.6 **Levels and nature of public involvement within the process**

Extended public participation in the budgetary process is a noticeable new figure appearing basically in the local level in Spain, basically attracted by the way opened by the Brazilian Porto Alegre case. As this movement in most of the cases very recent, it is too soon to judge whether this movement is just an in-fashion attitude or it is a more profound political transformation that will expand even more and will last. As the movement is very recent, there is no way right now to evaluate the practical implications in the local governments having pursued this policy. Key references in Spain (among cities with more than 10'000 inhabitants) are Albacete, a town with 160.000 inhabitants with a Local Council managing a 150 million euro budget. They have begun this consultative process in 1999, but the public involvement process affected just 10% of the whole budget. It has been decided this year that the selected 115 local interested bodies will decide on the distribution of 100% of the budget. There are other significant cases in some Catalan local governments, like Vilafranca del Penedes and Rubi.

Concerning the two regional governments under study, the public involvement is much less ambitious, and plays only a consultative role. In the Navarre case, as it was already outlined in the point 1 of this report, there are basically three external bodies that intervene in the stage of the definition of the budget draft: The Economic and Social Council of Navarre, the Environmental Council and the Foral Commission of Local Regime.
• The "Economic and Social Council of Navarre" is an institution where are represented different social groups: labour organisations, business organisations, farming sector, consumers and users, the co-operative sector, and some Government of Navarra-appointed experts. Members of these groups are appointed for a four-year term and may be re-appointed for similar periods. All of them are appointed by the Government under the proposal of the organisations, which represented or are established in the relevant sector. The main duties of the Economic and Social Council are: to give its opinion on Draft Bills and Draft Royal Legislative Decrees concerning social-economic and labour matters, as well as to offer its Report concerning the annual budget of the Government of Navarre. Regarding the budget process, each one of the groups mentioned above elaborates each own report to be sent to the Government of Navarre before the budget is presented to the Parliament. Although these reports are not mandatory for the executive power, the Government uses them to elaborate a budget closer to the society. The main weakness of the Economic and Social Council of Navarre involvement is that it does not present one report (as it happens in the Central Government layer) but one for each of the organisations represented in the Council. The plurality of proposals make them less workable for consideration by the executive body, and tend to become just an additional occasion for media exposure of each the interests defended by each organisation.

• The existence of "Environmental Council" is justified by the fact that the environmental protection really matters in Navarra during last years. This council was approved in 1993 (law 1/1993, of February 17th) and it is a mainly technical organism, where are represented a great number of professionals from the researchers world, of associations of defence and study of the nature, and of sport associations liked to the nature.

The main functions of the Environmental Council are:

- To advice by mandatory report about: any legislation concerning environmental protection, the environmental budget of the Government of Navarra, and the annual program of actions about the environmental in Navarra.

- To be consulted by the formulation of informs with respect to: spreading, study and education environmental plans, any question coming from the Government of Navarra or any of its Departments.

- Participation by proposals or initiatives with respect to: plans and research programs regarding the environmental protection, any question attributed by the specific legislation.

• The "Foral Commission of Local Regime". This Commission was historically preceded by the Foral Administrative Council of Navarre, which was a consultative organism for the traditional government (Diputacion) in issues like the Budget, Public Accounts, Public Debt creation. The new Foral Commission erected with the new democratic process is asked to give its position regarding all Foral draft Laws and all general decision which could affect the local governments, like the annual Budget. The report of this organism is very important for the executive power, because it gives a accurate information concerning how the budget will affect the main income resources of the towns.
Public participation in the Catalan budget is even less articulated and visible. The following external bodies are asked to fix their position concerning the relevant part of the budget: The Labour Council, The Health Council and the Catalan Economic and Social Council.

5.7 Performance target setting in practice

As we pointed out in the first section of this report, the Government, or executive power, is that really has enough technical means for the implementation of the performance target setting regarding the elaboration of the budget, and not the Parliament. Navarre has not introduced a clear budgeting by programs with measurable targets affecting all the departments, even if, as we saw before, several articles of the Public Finance Law (LF 8/1988) imposes that the Government should define such objectives. Several individual Services inside the Departments have nevertheless engaged an objectives and target procedure, like the Tourism Service or the Industry Service. One relevant example in this field, by its importance in the budget and because of the complete articulation of the adopted plan is the Health Department.

From the General Law of Health (law 14/1986) approved by the Central State, all the Autonomous Communities of Spain had to elaborate their health plans. That shows that in Spain does not exist a National Health Service, but a National Health System, which is the addition of the different regional health services of the Autonomous Communities.

• Following the law 14/1986, the Health Department of the Government of Navarre elaborated the Health Plan of Navarre for the period 1991-2000. In 1991 Navarre had already received the competencies on public health from the Central State, but not on the clinic assistance, which was still controlled by the National Health Institute. In other words, Navarre did not have the assistance resources to apply its own health plan.

The goal of the 1991-2000 health plan was the public health, but it was a mostly theoretical plan based on the guidelines of the World Health Organisation. It was a plan "for the libraries" (a normative and political plan), while the health services followed the citizen's demand and not the plan. Then, after the evaluation of the plan in year 2000, the health goals that were accomplished did not have a real relationship with the guidelines of the plan, but with the daily operation of the health had already received from the Central Government the assistance resources, and the elaboration of the new Health Plan of Navarre for the period 2001-2005 plan promised to be different.

First of all, we have to enlightened that the Health Department has a great number of qualified staff in order to achieve the 2001-2005 health plan. Second, the Health Department counted on the participation of some interested bodies related to the health service in the development of the plan, mainly: the Labour Health Institute, the affected pathologies by the objectives of the plan, and some affected health services.
The main characteristics of the plan are as follows:

1) It is a more qualitative plan, where there are objective as a real guidelines for the daily work of the health service.

2) It is a strategic plan including a organisation by processes for the clinic assistance system.

3) The new plan is centred on the necessities of the different pathologies, choosing only some of them.

4) The plan is not based on the public health, but on the sick people.

5) Regarding the quantification of the goals, each one of the objectives of the plan includes their own indicators of evaluation.

6) The health plan proposes to include the financial means needed within the budget for each year.

5.8 Critical points of the Health Plan of Navarre

Although the new health plan was very well received by the different health services in Navarre, it got a few problems in its application:

1) Although there was a law saying that the executive power was authorised to approve this kind of plans, it emerged some opposition in the Parliament. Thus, the legislative power changed that law trying to prevent the approval of the health plan. Then, the role of the Parliament became crucial regarding the support of plans like the health plan, and finally the Health Plan of Navarre was not approved by the Parliament. But, even without the support of the legislative power, the Government of Navarre decided that its Health Department would start to use the plan like its main guideline. And this has been the case until nowadays: the Health Plan is working.

2) Because of its lack of power at the Parliament, the Government of Navarre was not able to approve the 2002 budget. Then, the health plan did not have the necessary economic resources in order to work up during this year. Also the nomination of some key manager positions are still missing.

The main strengths of the plan could be summarised as follows:

1) Even it there have been not general guidelines coming from the Central State in order to lead and harmonise the different regional health plans, Navarre has been able to develop one of the best health plans comparing with other Autonomous Communities of Spain.

2) All the process of definition of the objectives and the performance target was achieved because of the existence of an important stock of human capital, which is in
some extent proper to the nature of the Health Department. It is not sure that all the Departments are able to carry out such a program.

3) All the process has been driven basically by internal expertise. The resulting outcomes have been thus easily accepted by all the affected personnel. Other attempts managed by external consulting firms have proved less successful.

4) Each of the planned goals include its own means in order to measure and evaluate their accomplishment. Then we have to enlighten the great measurability of the Health Plan of Navarre, which will enable the scrutiny of its practical application.

The case of the Generalitat of Catalonia is somehow disconcerting because, in one side, a budgeting by programs has been put in place since several years in a systematic way, while on the other hand, the lack of measurability of the proposed objectives clearly weaken the effectiveness of the scrutiny process. One of the documents sent to the Parliament by the Generalitat is the "Budget by Programs" (Pressupost per Programes). It concerns the activity of all the government departments. Each department presents a general description of its objectives in very broad terms. Then follows the description of the objectives of each program inside the department. Each budget program shows the same structure:

1. Description and goals of the program.
2. Activities.
3. Organism charged of the execution of the program
4. Objectives and indicators of its accomplishment

To give an example, the Department of Economy counts with 7 programs and the Department of Education has 14 programs.

Even if the structure indicated is perfect in expected theoretical terms, the critical weak point is, as already mentioned, that any of the program define the objectives in a direct measurable way and does not provide a quantified target. There is also no link between the financial allocation to each program and its repartition among the different objectives of each program.

In conclusion, the Generalitat of Catalonia counts with a potential strong tool which could dramatically improve the quality of its management, the transparency of the budget approval, and the effectiveness of the scrutiny system but, in its present practical implementation is ineffective for all these purposes.

There is clearly a lack of this kind of public management culture, and it seems that at the present moment there is not a strong political will, neither in the executive side nor in the legislative branch, to alter the present state of things. We noticed a similar situation in the Navarre case, with the notable exception of the Health Department. Even in this special case, some important obstacles are still to be removed in order to ensure the full effectiveness of the target setting approach.
5.9 Explaining differences

- The degree of institutional development: the Scottish procedure seems specially attractive for a State in a devolving or transitional process (providing that the democratic values are well established). Some politicians interviewed argue that the efficiency and even the democratic limits of high level of participation and discussion about objectives in an annual basis may dramatically fall in a stable and well stable sub-national public structure. As the political debate about public policy objectives is abundantly done when new laws are approved, most of the subsequent annual objectives, performance targets, and level of expenditures are determined in a multiannual and accrual basis. An annual redefinition of such objectives could become inconvenient and inefficient, opening the room to politico-political negotiations.

- The ambitious plan of parliamentary active intervention during the first stage before the draft budget is issued imposes a highly performing and profusely dotted in technical and human capital means. This strong practical position of the Parliament is needed first of all to endorse useful alternative proposals to those advanced by each department of the executive body and, secondly, to resist the arguments provided by each department against these alternative proposals, as these civil servants have a strong control of the dossier and lead the information issue. This is far from being the case in the Parliaments of Navarre and Catalonia. With its present structure they could probably be unable to fulfill seriously a so demanding responsibility. As we have mentioned before, it does not seem in the present moment that a change of the institutional status quo is a premier political issue, even among the ranks of the parliament members.

- The incipient policy in Spain of public services outsourcing at local and regional level. This kind of practices, mostly promoted at the local level, naturally demand the introduction of performance target setting. Once this practice has been applied to outsourced services, the natural next step is that public opinion ask to extend similar practices to fully public owned and managed services. This induced target setting culture is only emerging now at the local level (for instance, several performance indicators are published now regarding local governments in the Barcelona Metropolitan Area), while it appears to be a common and well established practice for years in the United Kingdom local governments. This may help to understand why a coherent target setting policy is expected and demanded at the Scottish regional level, while this political attitude is still not dominant in the Spanish regional level.

- The electoral system in Spain in the Central layer as well as in the Regional layer tends to create an institutional structure which is dominated by the Executive branch, even when the Government does not dispose of an absolute majority in Parliament, as it has always happened in Navarra and has been the case in Catalonia from time to time. In Spain there are not Presidential elections. The President of the Government,
which has the responsibility to nominate its Government Ministers, is elected by the
Parliament. People is asked to vote for their Parliamentary representatives. As the
President of the Government represents the interest of a majority of the
Parliamentarians, the Executive tends to lead the political initiative during each
Legislature. This domination of the political agenda has also its reflect in the
budgetary process. It helps then to understand the relative political weakness of the
Parliament in the Spanish regions and the present lack of political interest to ask for an
increased participation in the budget elaboration and the scrutiny control.

5.10 . Sources and references

5.10.1 Bibliography:

ALLI ARANGUREN, J.-C.: “El convenio economico entre el Estado y la Comunidad Foral de Navarra tras su
modificacion por la ley 19/98, de 15 de junio”, Anales de Derecho, Nº 1, 1999-2000, Ed. Facultad de Ciencias
Humanas y Sociales, Universidad Publica de Navarra.

ARRAZOLA ARANZADI, A.; SOBEJANO TORNOS, I.; et al.: ”¿Como estamos de salud 2000?”, Salud
Publica y Administracion Sanitaria, Anales del Sistema Sanitario de Navarra, Monografia Nº 4, Ed.
Departamento de Salud, Gobierno de Navarra, Pamplona, 2002.

BOLETIN DEL PARLAMENTO DE NAVARRA: Informe de fiscalizacion sobre Recomendaciones emitidas en

BRAÑA PINO, J. and SENA DE LOS MOZOS, V.M.: "La descentralizacion de las competencias de gasto

CABEZA DEL SALVADOR, I.: “Problematica de la auditoria operativa sobre programas presupuestarios”,
Revista Tecnica de Auditoria Publica, Nº 5, 1996.

CABEZA DEL SALVADOR, I.: “Auditoria operativa en el Sector Publico: ¿realidad o utopia?”, Revista
Tecnica de Auditoria Publica, Nº 11, 1997.


Navarra (newspaper), several years.

FABADO, E. Auditoria de Economia, Eficiencia y Eficacia en el Sector Publico, Camara de Comptos de


MOLERO, J.C.: "Analysis of the decentralization of Public Spending in Spain", Public Finance and


5.10.2 *Web pages:*

*The Parliament of Navarre:*
http://www.parlamento-navarra.es

*Department of Economy and Finance of Navarre*
http://www.cfnavarra.es/economia.hacienda/

*The Camara de Comptos of Navarre (Audit body):*
http://www.cfnavarra.es/Camara.Comptos

*Boletín Oficial de Navarra (Official Bulletin of Navarre):*
http://www.cfnavarra.es/bon

*Parliament of Catalonia*
http://www.gencat.net/parlam

*Department of Economy and Finances, Generalitat of Catalonia*
http://www.gencat.net/economia/

*Sindicatura de Comptes of Catalonia (Audit body, info in English)*
http://www.sindicatura.org/index_eng.html

5.10.3 *Interviews:*

**Navarra**

Mrs. Mª Concepcion Aranguren-Alvarez. Director of the Budget and Treasury Service, Economy and Finance Department, Government of Navarre.

Mr. Blas Los-Arcos-Leon. Director of the Economics Service, Economy and Finance Department, Government of Navarre.

Mr. Jose Javier Viñes-Rueda. Director of the Teaching, Research, and Development Service, Health Department, Government of Navarre.

Mr. Juan Cruz Alli-Aranguren. President of the political party *Convergencia Democrática de Navarra* (CDN).
Member of the Finance Committee of the Parliament of Navarre.

Mr. Luis Ordiki-Urdazi. President of the Camara de Comptos (General Auditing Office) of Navarre.

Mr. Ignacio Cabeza-del-Salvador. General Secretary of the Camara de Comptos (General Auditing Office) of Navarre.

Mr. Luis Ordiki-Urdazi. Auditor of the Camara de Comptos (General Auditing Office) of Navarre.

Catalonia

Mrs. Susanna Bonastre. Director of Budgetary Evaluation, Economy and Finance Department, Government of Catalonia.

Mr. Martí Carnicer. Spokesman of the political party Grupo Socialista. Member of the Finance Committee of the Parliament of Catalonia.

Mrs. Montserrat de Vehi. Sindic (Auditor) of the Sindicatura de Comptos (General Auditing Office) of Catalonia.
6. Case Study Report – Region of Tuscany, Italy

Prof Riccardo Mussari
Università degli Studi di Siena

6.1 Introduction: the context

Whilst being one and indivisible (article 5 of the Constitution), the Italian Republic, recognises local autonomy. In accordance with article 114 of the Constitution the Italian Republic is divided into Regions, Provinces and Municipalities. The Constitution gives these entities autonomous powers, including legislative powers, certain powers of taxation, along with property, management, financial and administrative autonomy. At the time of writing the territory of the Italian state is divided into 20 Regions (of which, from article 116 of the Constitution, five enjoy particular forms and conditions of autonomy: Sicily, Sardinia, the Valle d’Aosta, Friuli – Venezia Giulia, and the Trentino – Alto Adige). There are 103 Provinces (of which two are “Autonomous Provinces”, namely Trento and Bolzano, which belong to the Trentino – Alto Adige region). There are 8101 municipalities. The internal organization of these bodies is fairly similar: the principal organs are the Council, the Executive Board, and the President whose exact title varies according to the body (Mayor of the municipality, President of the Region or of the Province).

In recent years Italy's institutional assets have undergone a profound process of change which has involved regional and local levels (majority electoral system, decentralised administration without constitutional changes), and state level (reorganisation of Ministries and of the Presidency of the Council of Ministers). These changes were caused by the passing of constitutional laws no. 1/1999 and no. 3/2001 (following the positive result of the referendum of 7 October 2001) which modified Section five, second part of the Constitution which deals with the Regions, Provinces, and Municipalities.

In particular, the constitutional law no. 3/2001 profoundly redefined the scope of the Region’s legislative and administrative areas of responsibility, as can be seen in table 1. In short, the Regions with ordinary autonomy such as Tuscany enjoy full “exclusive” legislative competence in particularly relevant areas (for example, artisanship, industry, tourism, professional training, etc.) and also enjoy a shared legislative responsibility competence in the areas specified by article 117, paragraph three. This has resulted in the strengthening of the legislative and political autonomy of the Region.
### Table 1: The Legislative Competence of Regions with Ordinary Autonomy

<table>
<thead>
<tr>
<th>Area or Field of Interest</th>
<th>Exclusive Competence of the State</th>
<th>Shared Competence</th>
<th>Exclusive Competence of the Region</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Foreign policy; immigration; religious affairs; Defence and the Armed forces; money, financial markets; competition, financial resources equalisation; State organisms and their electoral laws; security and public order; justice; environment and cultural heritage.</td>
<td>The Regions’ international relations and relations with the European Union; foreign trade and commerce; job security and protection; education; professions; scientific and technological research; health; agriculture, food, and fisheries; sport; civil defence; territorial government; civil infrastructure; communications; energy; complimentary and integrated social security; co-ordination of public finances and the fiscal system; evaluation of cultural and environmental benefits; credit organisations of Regional character.</td>
<td>All the others (for example, industry, tourism, professional training) which are explicitly not the exclusive competence of the State or shared with the State.</td>
</tr>
<tr>
<td>Role of the State</td>
<td>Approve laws</td>
<td>Use the laws to determine the fundamental principles (e.g. D Lgs 76/00 on finance and budgets)</td>
<td>(Lay Down the Constitutional Principles)</td>
</tr>
<tr>
<td>Role of the Region</td>
<td>Approve laws (e.g. R.L. 36/01 concerning finance and budgets)</td>
<td>Approve laws</td>
<td>Approve laws</td>
</tr>
</tbody>
</table>

On the level of administrative competence the fundamental criteria for the subdivision of administrative functions is identified in the principles of subsidiarity, differentiation and adequacy.

In 1970 the Region of Tuscany, as with the other Regions with ordinary autonomy, was constituted as an autonomous body with its own powers and functions. The entire organisation of the Region is governed by the Statute. This establishes the principles and objectives which inspire regional action.
Constitutional Law no. 1/1999 modified articles 121, 122 and 123 of the Constitution. These articles relate to the electoral system of the Region’s organs and to the regional statute. In particular, the new formulation of article 122 created a “transitory regime” as it contains the following provision: “the President of the Regional Council, unless the regional statute states otherwise, is elected by direct universal suffrage. The elected President appoints and dismisses members of the Executive”. Naturally, since the previous formulation of article 122 stated that “the President and the members of the Executive are elected by the Regional Council “ and no statute could contain a provision contrary to the Constitution, the “normal” form of elections can only be effective with statutory modification. At the time of writing, changes in the Statute have not yet taken place in Tuscany 29. Therefore, in the Region of Tuscany, even if the President of the Council has not yet been directly elected by the electorate, the coalition which won the election had a sufficiently large majority to elect their own candidate as premier. In fact, law 43/95 which reforms the electoral system for elections to the Regional Council, makes provision for the allocation of part of the seats through proportional representation and in part through the majority system, which results in coalitions being favoured. As a result, electoral campaigns involve two opposing coalitions, each with their own presidential candidate. Even though the President is formally elected by the Regional Council, he or she has already been indicated clearly by the electors.

The process of reform has also modified the manner in which the Regions acquire resources. More precisely, the new Constitutional article 119 gives financial autonomy to the Regions in terms of income and expenditure. They have autonomous resources and can establish and apply taxes, thereby raising their own income, in harmony with the Constitution and the principles co-ordinating national public finances and the tax system. Furthermore, the Regions share the taxes collected by the Central Government on their territories. An appropriate scheme of equalisation, without restrictions on the destination, integrates financial resources of areas with smaller fiscal capacity per inhabitant. These resources must be sufficient to finance the public functions assigned to the Regions. The State can provide the Regions with additional resources for other issues (e.g. remove social and economic injustice). The regions can only turn to loans for the purpose of investment and without any State guarantees on the contracted loans.

The recognition of the principle of subsidiarity means that the Regions operate through other bodies within their territory. In addition to the Health Firms which receive the greatest part of the resources (for example, in the budget of Tuscany in the financial year 2001, about 67% of the budget was allocated to health), there are Local Governments, that is to say, the municipalities, the provinces, and the mountain and island communities which have all been given ample autonomy in terms of administration and management.

Resources from the State (transfers, tax sharing, or additional tax revenues) play an important part in the Regions’ budgets. On the other hand, in the budgets of the local Governments,

---

29 Incidentally, in Tuscany, in the session of the 11 of November 1997 the government approved a new statute, but at the time a regional statute had to receive the approval of the national parliament in order to come into force. This approval was not obtained because at that time there were discussions about constitutional reform going on which besides redesigning the functions and manner of elections of the governing bodies, gave greater autonomy to the Regions, including full power in giving itself with a statute.
funds from the Region are a modest part of the total as the greater part of their funding comes from their own sources of funding and from transfers allotted to them by the State. In fact, at the time of writing the redistribution system for all the sub-national Government levels (Regions included) functions on a national basis and is managed by the Ministry of the Interior (the Home Office in Great Britain, the Department of the Interior in the USA).

**Table 2: Taxation Income of Regions with ordinary autonomy**

<table>
<thead>
<tr>
<th>Source of revenue</th>
<th>Taxes on the occupation of public spaces and areas</th>
<th>Taxes on the tax on methane</th>
<th>Taxes on fuel for motor vehicles</th>
<th>Regional taxes on the right to a university education</th>
<th>Special taxes on solid refuse in garbage dumps</th>
<th>Regional tax on sonorous emissions from aircraft</th>
</tr>
</thead>
<tbody>
<tr>
<td>IRAP (Regional Tax on Productive Activities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional additional income tax</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regions sharing in V.A.T.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxes on regional concessions/licences</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional taxes on motor vehicles ownership</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Table 3: Tuscany Region’s budget 2002 - Summary**

<table>
<thead>
<tr>
<th>Category</th>
<th>% (Obligation basis)</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>REVENUE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Budget surplus from the previous f.y.</td>
<td>745,326,167.04</td>
<td>10.87</td>
</tr>
<tr>
<td>of which:</td>
<td>5,128,546,442.39</td>
<td>74.81</td>
</tr>
<tr>
<td>Taxes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>IRAP</td>
<td>2,076,157,000.00</td>
<td>30.29</td>
</tr>
<tr>
<td>Regional additional income tax</td>
<td>320,141,000.00</td>
<td>4.67</td>
</tr>
<tr>
<td>Regions sharing in V.A.T.</td>
<td>2,440,775,000.00</td>
<td>35.61</td>
</tr>
<tr>
<td>Current transfers from E.U., State and other entities</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transfers from E.U.</td>
<td>47,787,080.6</td>
<td>0.7</td>
</tr>
<tr>
<td>Transfers from State</td>
<td>549,289,348.80</td>
<td>8.01</td>
</tr>
<tr>
<td>Non taxes revenue</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Capital revenue</td>
<td>11,423,976.72</td>
<td>0.17</td>
</tr>
<tr>
<td>Loans</td>
<td>121,526,090.33</td>
<td>1.77</td>
</tr>
<tr>
<td>Loans</td>
<td>250,018,957.34</td>
<td>3.65</td>
</tr>
<tr>
<td>Total</td>
<td>6,855,073,063.22</td>
<td>100</td>
</tr>
<tr>
<td>SPESE</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Institutional strategy</td>
<td>193,208,331.02</td>
<td>2.82</td>
</tr>
<tr>
<td>Social strategy</td>
<td>4,624,448,924.93</td>
<td>67.46</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Social services</td>
<td>24,000,000.00</td>
<td>0.35</td>
</tr>
<tr>
<td>Health facilities</td>
<td>169,564,964.53</td>
<td>2.47</td>
</tr>
<tr>
<td>Health care</td>
<td>4,034,072,719.99</td>
<td>58.85</td>
</tr>
<tr>
<td>Development of social care</td>
<td>362,242,920.39</td>
<td>5.28</td>
</tr>
<tr>
<td>Territorial strategy</td>
<td>628,722,885.20</td>
<td>9.17</td>
</tr>
<tr>
<td>Environment strategy</td>
<td>239,479,790.26</td>
<td>3.49</td>
</tr>
</tbody>
</table>

Page 96
The evolution of the form of the State towards a federal model, or one which grants greater autonomy at sub-national levels, must bring greater centralisation of the Region’s role in local Governments’ financial matters. Although the matter is continuously evolving, Tuscany has fixed some principles. In the R.L. 77/95 entitled “System of autonomy in Tuscany: administrative powers and general working norms” to which the most recent norms also make reference, the Region can define the finances for activities and for territorial areas, but must prevalently assign them to Local Governments without directly carrying out programmes and projects itself. The allocation of financial resources to Local Governments takes place through a “Regional fund for covering additional costs of the delegated entities”. The main responsibilities for specific sectors (employment, transport, economic activity, residential building construction) have been transferred to the Local Governments by national law (L. 59/97, the so-called “Bassanini law”). However, the Region keeps control of the formulation of plans and programmes, and allocates the finances destined for each sector to the Local Governments, instituting appropriate “funds” in the Regional budget (for example, the “Fund for industry”).

Table 4: Statistics for the Region of Tuscany

<table>
<thead>
<tr>
<th>Population at 31/12/00 3,547,604</th>
<th>Territorial area: 22,990.40 km²</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provinces: no. 10</td>
<td>Municipalities: no. 287</td>
</tr>
<tr>
<td>Mountain and island community: no. 18</td>
<td>GNP (Gross National Product) at 31/12/2000: 79,184.72 millions euro</td>
</tr>
</tbody>
</table>

6.2 The processes of budget and performance target setting, financial and business planning, and financial management and control by government

The discipline of public budgeting and accounting in Italy has recently undergone quite profound reform. Firstly, the reforms have affected the Local Governments (Lgs.D. 77/95), then the national government (L. 59/97 e Lgs.D. 279/97; L. 208/98) and lastly, the Regional governments (Lgs.D. 76/2000 and successive adjustments of regional laws). The salient reforms affecting the Regions were:

1. linking budget allocations with the organisational structure so as to be able to allocate both the necessary resources and the objectives in terms of performance to the centres of responsibility;
2. simplification of the budget’s structure and a reduction of the number of elements to be approved by the elected assembly (Regional Council)
The allocations of the annual Regional budget are formulated in terms of obligation and cash basis, and articulated for both the income and the expenditures by Basic Forecasting Units (Unità Previsionali di Base) or BFU.

The new apparatus of regional accounting has brought about the separation of the moment of political direction and the administrative management, distinguishing:

a) a “political” budget, subject to approval by the Regional Council (or RC) and structured for BFU, characterised by reference to homogenous areas of activity which are composed of the Regions’ competencies/responsibility.

b) an “administrative” budget, entrusted to the management by the Regional Executive Board (or REB), and consists of items, which are the elementary units of the administrative budget.

Table 5: Political Budget and Administrative Budget Table

<table>
<thead>
<tr>
<th>“Political” Budget</th>
<th>“Administrative” Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>contains the subdivisions of the objects of income and expenditure in BFU</td>
<td>contains the subdivision of the BFU into items</td>
</tr>
<tr>
<td>subject to the approval of the RC</td>
<td>it is the document approved by the REB which accompanies the budget proposal to the RC</td>
</tr>
<tr>
<td>it is accompanied by technical document containing subdivision of the BFU into items</td>
<td>it performs two functions:</td>
</tr>
<tr>
<td></td>
<td>- knowledge: the items of income and expenditure which compose each BFU are identified</td>
</tr>
<tr>
<td></td>
<td>- managerial: in as much as the managers will continue to commit and pay for items of expenditure and to assess and collect items of income</td>
</tr>
</tbody>
</table>

In other words, the political decision made by the RC is focussed on units homogenous both in regard to functional destination and economic nature. At the same time the RC approves the budget law, the REB divides the BFU into items with the aims of managing, accounting for and allocating the resources necessary to reach the objectives of the operations, programs and projects included in the budget. Consequently, the reallocation of resources within each BFU does not involve the elected chamber. The new distribution of competencies in planning and in budgets between the legislative body and the executive body belongs to a wider process of institutional reform and reform of electoral laws. In addition, for accounting, the reform reflects reform of public management whose fundamental point consists of the allocation of managerial responsibility to the managers in terms of correlating the use of the resources (human, financial, and material resources) with the reaching of performance objectives.

Lgs.D. 76/2000 fixes the general regulative framework within which the Council of each Region can define those aspects left free of state regulation (see Table 6).
With regard to accounting, the Region of Tuscany has brought about Lgs.D. 76/2000 with the approval of R.L. 6 August 2001, no. 36 (“Accounting Law of the Region of Tuscany”).

The structure of the Region of Tuscany’s new accounting law reflects the general tendency to reinforce the role of the Executive Board. In fact, R.L. 36/01 is a law “of principles” and is much more slender than R.L. 28/77 which was previously in vigour (about 50 articles instead of 150). This new law leaves the definition of the technical aspects and the detail to the regulations contained in the Regulation of Accounting approved by the Executive Board. Consequently, the latter is able to modify the accounting and budgeting norms without it being necessary to obtain the legislative approval of the Council for modifications to be made.

Table 6: Regulated Objects of Lgs.D. 76/00 and Regulated Objects of regional laws

<table>
<thead>
<tr>
<th>Lgs.D. 76/00</th>
<th>Regional law 36/01</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial planning method: annual and multi-annual budget;</td>
<td>The regional Executive Board can also present a project of financial law for the Council’s approval (to be approved before the budget law)</td>
</tr>
<tr>
<td>Opportunity to adopt a financial law, to discipline through regional law which contains the financial reference framework for the period covered by the multi-annual budget.</td>
<td></td>
</tr>
<tr>
<td>Annual budget approved with RC law in modes and terms allowed by Statute and the regional laws.</td>
<td>By the 31st of October of each year, the REB presents the budget law proposal to the RC for their approval along with the financial law.</td>
</tr>
<tr>
<td>Using regional law, approval of the balanced budget by 30 June each year.</td>
<td></td>
</tr>
<tr>
<td>Variations in the budget can be adopted by 30th November in the year to which the same budget refers.</td>
<td>The RC approves the budget law by 31st December of the year preceding that to which the budget refers. The REB presents the RC with the balanced budget by the 30th April. The REB presents the RC with the statement of accounts by the 30th April of the following year.</td>
</tr>
<tr>
<td>Using regional law, approval of the statement of accounts by 30 June of the following year. The statute and the regional laws establish terms and modalities for its presentation to the regional Council.</td>
<td>There are three types of expenditure laws, with specific rules regarding quantification of how much money will be spent and sources of financial covering</td>
</tr>
<tr>
<td>Expenditure laws: according to the case, these contain the quantification of how much to spend, or refer to the budget laws.</td>
<td></td>
</tr>
</tbody>
</table>
As is often underlined in regional norms, economic planning and elaboration of the budget are strictly connected processes. In fact, R.L. 36/01 governs this matter “in a manner which assures the coherence of the budgets and of their management with regional planning” (article 1) and “the budget is elaborated in conformity with regional planning and provides financial projections of the relevant destinations” (article 2, paragraph 7). Correspondingly, in article 18 R.L. no. 49/99 (Regional Planning regulations) states that “the Region’s budgets are drawn up in agreement with the regional development plan, with financial and economic planning documents, with other regional planning documents and plan the necessary financial resources.

In Tuscany’s regulations economic and financial planning is carried out by using three types of instrument:

a) ordinary laws (expenditure laws)
b) planning documents
c) financial laws and budget laws

The expenditure laws follow the usual procedure for the proposal, which is discussion in chamber and approval, but are also subject to specific regulation in the Accounting Law, in particular for the quantification of the resources necessary and sources of financing covering. Article 10 of the R.L. 36/01 identifies three types of expenditure law:

1) Laws which determine the objectives to be achieved and the procedure to be followed, and which define the characteristics of the relevant regional operations, referring the quantification of resources for these objectives to the following annual and multi-annual budgets.

2) Laws, in addition to establishing objectives and operations, directly establishing the total amount of expenditure to be allocated in the budget.

3) Laws which define the regional activity and operations in a way which indirectly predetermines the total amount of the relative allocations, creating expenditure automatism.

As for the required covering of expenditure in the regional expenditure laws, article 11 of R.L. 36/01 provides that whether a law involves a repeal or reduction of the revenue, or an increasing in expenditure, the same law must show the necessary financial means. These laws must show the amount of expenditure or the reduction in revenue for each financial year during which these laws cause effects. The means of covering the expenditure are shown in the annual budget or are also shown in the multi-annual budget according to whether or not the laws allow expenditure only in the current financial year or also in the following years.

The ordinary expenditure laws do not follow any particular deadline but harmonise with the planning and programming, and with the budgets, in the manner just explained. On the other hand, the other two types of instruments (points b and c) follow procedures which are regulated also in timing.
6.2.1 The Planning Documents

The instrument fundamental to guiding the activities of the various offices and for the co-ordination of all the bodies is the Regional Development Plan and the regional plans in the various sectors, planned by the REB activating general procedures of participation and approved by the RC.

Article 5 of the planning law (R.L. 49/99) lists the instruments of planning:

a) the Regional Development Plan (RDP) defines the political options, the mid-term objectives and the strategies for operations;
b) the Economic and Financial Planning Document (EFPD) specifies the short-term objectives showing the principle destinations of resources;
c) the laws and regulations institute the policies of development and determine the ways of intervention;
d) the budgets quantify the financial resources and establish the appropriations;
e) the sector Regional Plans and Programmes, which delineate more detailed instructions for carrying out the policies, co-ordinate the operations, integrating and finalising the resources of the Region, State and European Union;
f) the Local Development Programmes and the other local planning documents select the projects and define the operations to be carried out by the integration of local and regional resources.

The Regional Development Program (RDP) is the fundamental tool for directing the Region’s governmental activity. It defines:

- the economic and structural context
- the main options and political priorities
- the strategies for operations and the connected general objectives and means to achieve them.

The RDP is valid for the entire five years of the legislature and can be modified or drawn up anew, on the basis of analysis of the Region’s economic, social and environmental situation, if the REB considers necessary to change the political options. In any case the RDP is updated annually during the elaboration of the EFPD.

The REB, at the beginning of the legislature, prepares the draft of RDP and sends it to the RC. It is approved by RC’s resolution and is published in the Region’s official bulletin. There are particular procedures for the examination, approval and modification of the RDP and Sector Plans. The RDP is approved at the beginning of the legislature by the overall majority of the members of the Council through a roll-call voting. The relevant documents are assigned to the Committees concerned (First Committee and Committee of Inspection) and these require the advices of all the other permanent committees. The advices are always put to the leads committees. This method also applies to the modification of approved documents.
The Economic and Financial Planning Document - EFPD is a political planning document, for the Regions management for the following year with a three to five year projection. Its contents are:

a) concise analysis of the economic trend, of the institutional and social situation, the state of the environment and of the health;
b) explanation and evaluation of the progress of and results from the previous year’s regional plans and programmes;
c) the forecast for total income, and how much of this is restricted to particular destinations;
d) the framework of resources and the framework of operations which can be activated in the Region by State and by other public bodies;
e) the statement and schedule of non-transferable expenditure restricted by law and by rights;
f) information about objectives and priorities in each strategy of the RDP, and information about possible extraordinary investments;
g) possible financial manoeuvres, with particular reference to the taxation system, to the granting of mortgages and loans, to the issue of bonds, to building and land transfers, and to the operation of finance for innovation;
h) information on the planning documents, including negotiations, to be set up, updated and implemented;
i) the hypotheses of resource sharing between the various strategies;

6.2.2 The process of approval

The elaboration of the EFPD drafts for each sector by the various regional offices generally occurs in the months of January and February. Then the various parts are “consolidated”. The agreement procedures with the interested parties generally comes about in the month of April in the General and Sector Agreement Tables. The REB adopts the EFPD by the 30th of April and sends it to the RC at the same time as it sends the proposal for the balanced budget for the current financial year, the statement of accounts for the previous financial year (which must be approved by the Council within June 30th) and the draft management report for the previous financial year too.

The elaboration of the EFPD’s “administrative” draft therefore represents a key moment in the process of regional planning, which allows the results of past management to be connected with the present situation and the future developments. The EFPD proposal and the other connected documents are examined by the First Committee (whilst the statement of accounts is assigned to the Audit Committee) which have only to report on them to the Council (Reporting proceedings) and not to vote on it (voting proceedings). It is usual procedure for the First Committee to have a brief period of consultation with the representatives of economic and social forces (see paragraph 5).
The Document is approved by the regional Council’s resolution and is published in the Region’s official bulletin. There is no particular procedure for the approval of the EFPD by the Council. However, its strict relationship with the budget documents (budget variations in the year in question and economic forecast framework for the elaboration of the following year’s budget) means that it follows the approval of the balanced budget (the EFPD for 2002 – 2004 was approved on 04-07-01, a few days after the approval of the statement of accounts for 2000 and the approval of the balanced budget for 2001; the EFPD for 2003 – 2005 was approved on 08-07-02). In any case, it is convenient if the EFPD is approved largely before the 31 October, the deadline for the presentation of the proposed budget to the Council.

The strategies identified by the RDP and specified by the EFPD are carried out through Sector Regional Plans and Programmes, which are sectorial or intersectorial (for example, Regional Health Plan – RHP) which normally are linked to the expenditure laws. These plans are proposed by the REB and then approved by the RC.

The plans and programmes can be linked to those of the Local Governments or directly related to the Region’s interest or objectives. Usually plans and programmes last for periods of time which correspond to those in the regional development programme and can be redefined, updated, and implemented according to the strategies set in the EFPD.

6.2.3 Legislature Program

The electoral reform to the majority system has indirectly caused a centrality of the electoral programmes proposed by the coalitions who confront each other at the elections and of their leaders. Although there are no specific regulations and it is too early to establish if a practice has definitely come about, this electoral programme forms the basis (or coincides with) the “Political planning document” with which the candidate for the presidency is presented to the RC along with the proposal for the REB’s composition and the related government programme. In accordance with article 37 of the Tuscany’s statute, the election of the President and the REB brings the approval of the Political planning document.

The programme presented by the sitting President is composed of ten points: four interdisciplinary projects (The young; A secure Tuscany; A more efficient and less bureaucratic Tuscany; The Tuscany of information and knowledge) and six sectors of operations (A special autonomy for Tuscany; Tuscany and Europe; The territory and the environment; The economy and work; Culture, instruction and training; Tuscan welfare).

6.2.4 The monitoring and the evaluation of the planning

According to article 16 of R.L. 49/99 the phases of the planning cycles corresponding to the period of the RDP and the accomplishment of the financial and economic planning documents must be monitored. With an agreed periodicity, the results are examined with the parties involved in the agreement (see paragraph 5). The evaluation takes place during the phase in
which the EFPD is elaborated, which is also based on the management report of the previous financial year.

The monitoring activity is aimed to evaluate efficiency and effectiveness whose parameters are an integral part of the plans and programmes. In order to make the evaluation possible, the plans and programmes indicate the activities, the time deadlines, the expected results, and the relevant indicators of efficiency and efficacy, according to the appropriate analytical models decided upon by the REB.

**Table 7: The planning and elaboration of the budget in Tuscany: phases and competences**

<table>
<thead>
<tr>
<th>MONTH</th>
<th>REGIONAL EXECUTIVE BOARD</th>
<th>COMMITTEES</th>
<th>REGIONAL COUNCIL</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>Elaborates the EFPD sector drafts and their consolidate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>Activates consultation and general and sector agreements on the EFPD drafts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARCH</td>
<td>Adopts and presents to the Council: - the EFPD - the statement and accounts and the management report - the balanced budget bill</td>
<td></td>
<td></td>
</tr>
<tr>
<td>APRIL</td>
<td>Approves - The statement of accounts bill and the management report - The law of the balanced budget bill</td>
<td>Audit Committee Reports on the statement of accounts bill (lead committee) First Committee Reports on the budget bill, on the balanced budget bill; on the EFPD (lead committee); advice on the statement of accounts bill Inspection Committee: Advice on the EFPD, on the statement of accounts bill, and on the balanced budget bill</td>
<td></td>
</tr>
<tr>
<td>BY 30 JUNE</td>
<td>Adopts the technical regulations for the drawing up of the annual budget</td>
<td>Approves the EFPD</td>
<td></td>
</tr>
<tr>
<td>JULY</td>
<td>Elaborates the financial and budget bills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>AUGUST</td>
<td>Activates consultation and general and sector agreements on the financial and budget bills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BY OCTOBER 31</td>
<td>Approves and presents the RC with the proposals for the financial and budget bills</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------</td>
<td>----------------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>BY DECEMBER 31</td>
<td>First Committee Reports on the financial and budget bills (lead committee) Inspection Committee: Advice Other committees responsible for material resources Advice</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Approves the financial and the budget laws</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6.2.5 The financial law and the annual and multi-annual budget law

The drafts for the financial and budget bills for the following year are generally elaborated by the Region’s offices immediately after the approval of the statement of accounts of the previous financial year, the balanced budget for the year in progress, and the EFPD, which is from July. The REB starts the drawing up of the sector drafts for the budget, imparting the necessary technical regulations through specific resolution, which must be adopted by 30 June (article 2 of the DPGR 19 December 2001 no. 61/R “Regulations of R.L. 36/01’s activation”). At the beginning of September a first draft of the “consolidated” budget is reached, which is changed following the confrontation with the economic and social forces. The Sectorial and General Agreements Tables are built between mid-September and the end of October so as to allow the REB to present the financial and budget bills to the RC by 31 October, as provided for by R.L. 36/01. Then examination by Committees follows, and after that, discussion by the RC. In the current practice, no consultative procedures have been activated in this last phase (see paragraph 5).

The annual budget and the multi-annual budget at legislation in force, included in the budget bill presented to the Council, are formulated with the provisions and arrangements of the financial law in mind.

The budget law and the financial law are presented to the Council with lists and tables attached illustrating the forecasting methods, the connection with the pursuit of the objectives and the accounting effects of the provisions in the financial law.

The RC approves the budget law by 31 December of the year preceding to which the budget refers, deciding in the following order:

a) the financial law
b) the annual budget and the multi-annual budget at legislation in force
c) the planned multi-annual budget
d) the remaining parts of the budget law

The presentation of financial bill draft along with the annual and multi-annual budget bill, is left to the discretion of the REB (article 13 R.L. 36/01). The opportunity to incorporate all the legislative modifications which might influence the regional budget in the financial law derives from the fact that in article 14 of R.L. 36/01 it is stated, “the budget law finds legitimacy in the legislation in force.” That is to say, the annual budget must be drawn up at legislation in force (for this, the financial law must be approved before that of the budgets, even if this occurs in the same session).

The aims of the financial law are to:

a) adopt all the measures which influence the tax revenues and redefine taxation rates;

b) remove or modify the restrictions on the destination of the Region’s income contained in the regional laws;

c) introduce whatever modification to regional legislation may be necessary for the adoption of the annual and multi-annual budget, based on legislation in force.

The required financial covering of expenditure is guaranteed by the comprehensive equilibrium represented in the annual and multi-annual budget.

The procedure for the approval of the financial and budget laws is disciplined by the Regulation of the RC. In particular, the documents pertaining to the budget are assigned to the responsible committee and they request the advice of all the permanent committees, in respect of the expenditures in each committee’s field of responsibility. The advices are always attached to the report of the lead committee. The budget is approved by roll-call voting in the RC. This special voting procedure does not apply to the approvals of changes in the budget.

The **multi-annual budget** must be elaborated with reference to the regional planning, and has the function of defining the framework of resources which the Region expects to obtain and use in the period under consideration (from three to five years), explaining the trend of the income and expenditure separately in accordance with state and regional legislation already in vigour (multi-annual budget at legislation already in force). The forecasts for income and expenditure take the effects of the expected new legislative interventions into account (planned multi-annual budget). The adoption of the multi-annual budget does not give authorisation to collect the income nor does it authorise the commitment of the expenditure reported in it. The multi-annual budget is attached to the annual budget.

By the 30th of June of every year the Region approves by law the **balanced budget**. This leads to the updating of receivable assessments and of payable commitments as well as the financial balance and cash on hand.
6.2.6  Management and objectives performance

Not all the resources allocated in the budget are directly usable by Regional organisational units. As indicated in paragraph 1, a considerable part is composed of transfers to local bodies or other subjects. Regarding the resources directly destined for the organisational units or the Region’s administration, article 16 of the accounting law provides for the allocations of the annual budget presented to the council are determined on the on the basis of the Management Plans of the centres of responsibility. The centres of responsibility constitute the organisation units for the cost accounting purposes and for the allocation of human, material and financial resources necessary for the functioning of the region’s bureaucratic machinery and for the accomplishment of the activities directly carried out by the Region.

With the Management Plans, previously examined by the Planning Technical Committee, the REB negotiates with the managers the results to be achieved by the individual centres of responsibility in quantitative and qualitative terms, the objectives to be pursued. Following the approval of the budget law and in relation to the annual budget allocation, the REB finally approves the Document of the management plans, composed of all the plans together, and assigns the appropriate resources to the centres of responsibility.

6.2.7  The Statement of Accounts of the Region

The accounting results are shown in the Statement of Accounts which is composed of the financial statement and the Assets and liabilities statement (article 40 of R.L. 36/01). The statement of accounts is examined in the terms and with the modalities established by the Statute and by the Regional Laws, and its presentation to the Council lies within the competence of the Executive Board. The approval comes through Regional law by the 30th of June of the year following that to which the statement of account refers.

On the basis of article 108 of the Council Regulations, the statement of accounts is assigned by the President of the RC to the Audit Committee as laid down by article 54 of the Statute. The Audit Committee reports to the Council following having obtained the advice of the First Committee, responsible for budget matters. The statement of accounts is approved in the RC by the overall majority vote of the Members of the Council.

On the basis of R.L. 36/01, the financial statement shows the result of the management of the income and expenditures according to the same structure as the budget (objective functions and BFU) in such a manner as to enable the economic and financial evaluation of the results in relation to the objectives established and to the indicators of efficiency and efficacy identified. The REB prepares a technical document for the Council’s knowledge which accompanies and specifies the Financial Statement with reference to the items in the budget (that is, the statement of accounts of the administrative budget).

Along with the statement of accounts there is also an illustrated report of the REB which illustrates the administrative and economic significance of the accounting results in the statement of accounts, along with the annual accounts of companies controlled by the Region. Together with the statement of accounts that the REB presents for the Council’s approval, there is the Management Report, which with reference to the Regional programmes, contains:
a) the accomplishments of the regional policies with quantification of the allocated resources and those used, and with efficiency and effectiveness indicators;
b) the reclassified expenditure for factors of production;
c) the consolidation of Tuscany’s public expenditure;
d) evaluation of the functions transferred and delegated to Local Governments;

6.3 The methods and degree of Council involvement and scrutiny in budget and performance issues, with particular regard to the “First Committee” of the RC, charged of budget setting and others financial issues, equivalent to the Finance Committee in the Scottish Parliament

6.3.1 Responsibilities of the Regional Council

The Council is the representative and deliberative body. On the basis of article 21 of the Regional Statute it expresses the political and administrative strategy of the Region and controls its accomplishment. The Council of the Tuscany Region is composed of 50 Members, directly elected by the citizens, organised in Council Groups according to membership of the different political parties. The political activity of the Members is carried out both in the assembly (to approve laws, regulations and administrative acts) and in the Council Committees where the Members, in restricted numbers, examine draft bills and other acts, so that they can give the Council their advice. A President is elected by the Council among its members. The President has the responsibility of supervising the Council’s work and co-ordinating the activities of the various committees. The President, two Vice-presidents, and two Secretaries, form the Office of the Presidency. In particular, the Council:

a) exercises legislative and regulative power attributed to the Region;
b) deliberates on the participation of the Region in the national planning;
c) determines the strategy of regional planning and deliberated upon the regional RDP, the urban development plan, and the other regional plans;
d) approves the budgets and the statement of accounts of the Region, and of the dependent entities and companies;
e) approves plans for public works and the financing of them;
f) institutes the Region’s own taxes;
g) discusses the undertaking of bank loans and the granting of loans.

Neither in case of urgency nor by means the REB can exercise the responsibilities of the Council (article 22 of the Statute) and so the equivalent of the decree with the force of law emanating form the Italian Central Government does not exist. The legislative activities are based on the preliminary work of the Council Committee. There are two procedures:

1. preliminary examination of the draft bill by the Committee concerned and subsequent discussion and approval by the Council (reporting proceedings);
2. voting by the Committee on each single article of the draft bill and a final vote of the Council (voting proceedings).

On the basis of article 23 of the Statute, the initiative of the bill, of the regulations and of the administrative acts in the competence of the Council belongs to each member of Council and to the Executive Board. The preparation of the budget and the statement of accounts are the exclusive responsibility of the Executive Board.

A draft bill can not only be presented by the REB or by individual members of Council, but also by provincial Councils, mountain and island communities or if three municipal councils or 3,000 electors present the proposal ("popular initiatives"). The popular initiative is possible also for the regulations, and within the limits established by the regional law (see paragraph 5) for administrative acts which the Council is responsible for.

The Council, in the resolution of EFPD approval, defines the guide-lines to the REB for the drawing up of the annual budget.

6.3.2 Council’s organisation

The regional Council not only enjoys organisational and functional autonomy, but also accounting autonomy (article 9 of the Statute) in relation to the financial resources assigned to it in the budget and has its own budget (article 3 of R.L. 36/2001). The related statement of accounts is prepared by the Office of the Presidency and approved by the Council itself.

The operative structure at the Council’s service is the Department of the Presidency and Legislative and Juridical Affairs, which is directly accountable to the Council and guarantees the functional and organisational autonomy of the Council. In addition, the Office of the Presidency can institute a Committee of technical-juridical support composed of up to seven law experts who are particularly well-qualified in the Committees’ areas of responsibility, with the remit to co-operate with the organs and the advisory structures in the study of particularly important or exceptional juridical-institutional problems. The committees can also avail themselves of experts. The Department is composed of 5 functional structures and as many units as the permanent committees.

In addition, (article 5 paragraph 2 of R.L. 26/00) each component of the Office of the Presidency, including the President him or herself, has his or her own secretariat, but the President has also his or her own cabinet office.

Among the first laws approved by the Region of Tuscany after the elections of 2000, three were passed in order to expand the material resources at the disposition of the Regional Council. In particular, the personnel, financial and material resources at the disposition of the Council Groups have been expanded. The role of the group presidents has been given greater importance. On the other hand, the modifications have not affected the resources at the disposition of the Committees. Furthermore, the support structures of Regional government have been strengthened (secretariat of the REB and of the Office of Presidency).

Article 51 of the Statute states that the Region can institute organisms or avail itself of existing organisms in order to gather the necessary data for the elaboration of the regional programmes. In particular, the preparatory studies for the economic planning, for economic
and social provisions, and, in general, studies on economic and social aspects of the region’s activities, “are entrusted to a research body whose organisation and area of responsibility is defined by regional law.” Naturally, the Region can also avail itself of suitable research institutions. The research institute that answers to this end is IRPET (Regional Institute for Economic Planning in Tuscany), created in 1968 and becoming a public body in 1974. IRPET is fully autonomous, has representation from Local Governments, industry associations and trade unions, universities, and the Region. Its programme of activity is approved by the Regional Council.

In addition, the Institute can carry out other study, research and advisory activities on behalf of public and private clients, can establish relationships with other research bodies, including foreign ones, with specialised institutes, university departments and initiate specialised training in disciplines which are consistent with its activities.

In conclusion, IRPET’s study and research activities, are not completely devoted to a single organ of the Region, but constitutes and contributes a valid and “impartial” knowledge base. The knowledge of social and economic phenomena is particularly useful for Regional Council’s decision-making. It is the institutional organ expressing the multiplicity of interests and instances of administrative collectivity, but which, unlike the Executive Board, benefits in a smaller way from the exchange of information from government activity and is only partially involved in the planning activities.

6.3.3 Council Groups

The Members of Council are organised in Groups, composed of one or more Members of Council, based on their membership of a political party or of a coalition. In agreement with the Statute, the resources necessary for the Groups to carry out their purposes are included in the Council’s budget. Every council Group is supported by a special secretarial structure whose staff is established at the beginning of every legislature by a Council deliberation on the basis of a proposal from the Office of the Presidency.

6.3.4 Council Committees

There are two types of Council Committees. Firstly, there are permanent committees characterised by preparatory activity and the verification of laws, regulations and administrative acts within the Council’s competence. Secondly, there are special Committees instituted for the resolution of specific matters. Every Member of Council has the right to participate in at least one Committee and can participate in the work of all the Committees only through the right he/she has to speak. Any group which is not represented in a Committee has the right to have one of its Members of Council participate in the Committee’s work with the right to make proposals. The President and the Executive Board’s members have the right, and if requested, the obligation to intervene in the Committees sittings through the right to speak. The Committees, on the relevant subjects, refer to the Council, follow the accomplishment of the Council’s deliberations and the Management of the regional administration. They can arrange inspections, obtain acts and documents, and convene the regional administration’s personnel. In order to carry out their work they can carry out fact-
finding investigations, they can consult bodies, organisations, associations and individuals as well as turn to experts and institutions. The following permanent committees are constituted:

- the First Committee – Institutional Affairs (including planning, budgeting, finance and taxation)
- the Second Committee – Agriculture
- the Third Committee – Productive Activities
- the Fourth Committee – Health
- the Fifth Committee – Tourism and Cultural Activities
- the Sixth Committee – Territory and Environment
- the Seventh Committee – Inspection
- Audit Committee ex article 54 of the Statute

Within the RC, a Council of Autonomy has been instituted. It has similar functions to the permanent Committees in that it must provide the Regional Council with its advices on matters relating to local autonomy. The main difference is that the members of the Council of Local Autonomies are not regional Members of Council (see paragraph 5).

Each Group appoints its own representatives in the single permanent committees. The President of the Regional Council oversees that the appointments of the Groups’ representatives in the committees mirror the proportion in the Assembly between the council groups as far as possible, between majority and minority, so that the number of members assigned is as far as is possible equal in all of the committees. Every Council’s Member is assigned to a permanent Committee.

6.3.5 Committees involved in planning and checking

The Inspection Committee expresses to the Council, through a report, its advice on the proposals of bills and administrative acts regarding planning and budgeting, which exclusively concerns the consistency of the same documents with the general planning documents and the current year budget trend. For this reason, all the expenditure law and the planning documents proposals are assigned by the President of the Council, both to the Inspection Committee, and to the First Committee (which is the lead Committee) and to the Committee(s) relevant for the specific matter(s) (Subject Committee). The Inspection Committee advice must be expressed within thirty days from the assignment and before the advice of the lead Committee and of the Subject Committee. A contrary advice interrupts the procedure, but the proposal can be formulated again. Moreover, the Inspection Committee supervises the actions which accomplish the regional plans and refers the results of its activities to the Council at least twice a year. The REB must communicate all the planning and budgeting documents to the Inspection Committee, and, if required, the documents approved by the managers.
The First Committee is relevant to the following subjects: General and Institutional Affairs; Planning, Budget, Financial e Takes, Assets and Properties, Offices Organisation, Personnel; Urban and Country Police; Local District; Regional ombudsperson.

First Committee is made up of eight members of the Council, among whom there is a President, a vice-President and a Secretary.

First Committee is, therefore, in charge of examining and reporting to the Council on any bill or proposal of act regarding budget, planning and auditing, and in particular:

- financial bill and budget bill;
- change of budget bill and balanced budget bill;
- RDP and EFPD drafts.

First Committee is also involved in the scrutiny of the Statement of Accounts draft and the attached Management Report of the REB, in order to report on them to the Council. However, the lead Committee for the financial and annual report is the Audit Committee, under the article 54 of the Regional Statute.

In the Statute and in the Regulation of the Council there are not special provisions for the functioning of the First Committee as such; but proceedings for the approval of the above mentioned bills and acts are regulated. Therefore, in order to pass financial and budget bills, by way of example, Council Members have to vote by roll call.

Furthermore, the importance of the budget vote involves that the Commission can not adopt the “voting proceedings”. In other words, the Council has to vote the singles articles and not only the bill on the whole, like when the Committee follows the “reporting proceedings” and it is in charge of voting singles articles instead of the Council.

Like other Committees, First Committee can activate consulting procedures in carrying out its businesses.

As mentioned in section two, such consulting activities are usually dispatched during the scrutiny of the proposal of EFPD and of the attached documents (see section six for some empirical evidence).

On the basis of article 54 of the Statute, the Audit Committee supervises the management of assets and of budget, and examines the Region’s statement of accounts. Furthermore, this Committee exercises accounting control over the Council’s acts with regarding to the use of funds directly manager by the Council.

Besides the scrutiny carried out by the relevant Committee, in the course of the financial year a financial monitoring must be carried on (article 36 R.L. 36/2001) in order to safeguard the budget equilibrium. In particular, the aim is to avoid deterioration of the net balance to be financed and to ensure the adjustment of the budget’s provisions to the financial trends resulting from the management. The office responsible is the Department of Budget and Finance, which can also propose appropriate changes to the budget to the Executive Board and the instructions to be given to the offices in order to preserve the financial equilibrium.
6.3.6 Responsibilities of the Regional Executive Board

The REB has the power of accomplishing the legislative measures and administrative resolutions of the Council and managing the administrative functions and other activities stemming from the Statute, the regional laws and other regulations. On the basis of article 36 of the Statute, the REB is composed of the President and of a number of components which must be no less than six and no more than twelve. The choice made the day after the 2000 elections was to apply the maximum number possible for the Aldermen’s appointment, so the REB is composed of a President (also called President of the Region, or to use journalistic terminology, the Governor) and 12 Aldermen. The President and each component of the REB have their own staff office, with secretarial and public relations functions. Furthermore, the President of the REB has his or her own cabinet office. The REB is the body most intensively involved in planning, budgeting and auditing (see also following paragraphs). Moreover, with the operation of R.L. 36/01, the REB approves the most detailed version of the budget (the administrative budget) and assigns the budget objectives and the necessary resources to managers. The council must only approve changes to the budget which cause changes in the total allocation of a BFU, but not those bringing the reallocation of resources within the very same BFU. The new law has therefore made the system more flexible (in 2001 only three laws for change in the budget were approved, whilst all the other changes were introduced through administrative acts). However, the new law has strengthened the role of the REB compared to that of the Council.

6.3.7 Participation of Local Governments

R.L. 36/2000 redefined the role of the Council of Local Autonomies, which is the unitary representative body of the Local Government in Tuscany, his was instituted with the aim of favouring them with an operational role in the Regional decision making process and of activating the principle of permanent consultation between the Region and the Local Governments. The Council of Local Autonomies has its offices at the Regional Council and is composed of fifty members (Presidents of the Provinces, Mayors, and Presidents of town councils and of mountain and island communities). The Council of Local Autonomies expresses obligatory advices on acts being examined by the Regional Council which affect the responsibilities of the Local Governments. Furthermore, the Council of Local Autonomies expresses its advices on the budgeting and planning proposals, and it must be informed about modifications to these proposals. From this point of view, the Council of Local Autonomies has a similar function to that of the Council Committees. The Council of Local Autonomies can additionally express observations on all the other proposals lodged with the Regional Council.

It must be noticed that Associations of Local Governments have drawn up a protocol with the REB which has the aim of activating a Table of Agreement (see paragraph 5).

More in general, planning R.L. 49/99 assigns an important role to institutional links between the Region and the Local Governments. In fact, the Region co-ordinates its own operations
with those of the Local Governments and assures support for the development of the local systems. The actions of the Regional Plan direct the actions of the Local Governments with the aim of co-ordinating the use of financial resources and are determined following agreement with local institutions and with social entities.

Normally the Regional Plans and Programmes provide for the operations which will realise the objectives in each area, and the consequent use of financial resources being determined on a local level with specifically planned actions.

The Local Planning Documents are approved by the Municipalities, Mountain and Island Communities or Province, according to the administrative responsibilities on each of them. The Local Planning Documents are scrutinised by the REB if the measures are financed by the Region or it is necessary an administrative involvement of the Region.

Furthermore, the Region encourages the formation of sustainable local development programmes and within the regional plans and programmes, favours the accomplishment of the actions they plan. The local development programmes are promoted, co-ordinated and formalised by the Province and can be carried out through Programme agreements, or through agreements on a local basis, and other agreements by conventions or contracts.

6.4 The extent of proscription and discretion in the participation and scrutiny systems

6.4.1 The Council

According to the “classic” parliamentary concept, the discussion in Council is generally reserved for its members. In fact, on the basis of Regulation of the Council, only Members can speak in front of the Council. The REB has the right to speak each time it requests it. Also, upon the authorisation of the Office of the Presidency, other eminent political figures and Italian or foreign cultural figures may speak.

Consequently, the involvement of non-members usually occurs before the discussion in Council, for example, in the phase of discussion in Committees. In addition, the involvement of other interested parties in the discussions is not made in person but is carried out through the gathering of opinions. In order to organise the discussion of the proposals for the RDP and annual and multi-annual budgets, the Office of the Presidency and the Presidents of the Council Groups, can determine the maximum number of interventions and the total time reserved for each Council Group. There are limits on the duration of each operation and no Member\member of Council can normally speak more than once in the course of the same discussion.

Immediately after their presentation the President brings the amendments which increase expenditure or affecting the RDP or the budget, before the subject Committee so that they can express their own advice. For all bills and other proposals involvement expenditure the First
Committee must give its own advice on the financial covering and on the respect of accounting norms.

6.4.2 The Committees

During periods in which the Council sits, the Committees meet on fixed dates. For a sitting of a committee to be valid the presence of half of the committee members or a number representing a majority of the votes assigned to the committee is required. An official statement must be published through the press office of the Council that provides details of what was debated and details of the decisions taken by each committee. In addition to officials from the secretariat, the officials designated by the Department of the Presidency and Legislative and Juridical Affairs and an official from the press office of the Council are also present at the meeting. If the President consents, other regional officials able to answer technical questions or aldermen can also be present, as well as advisors and people from outside the regional administration whom the committee may have asked to attend and who have been authorised or invited. At the beginning of a legislature the office of the President of the Council, upon request from the conference of Group Presidents, authorises the presence of an official of each Council Group during the meetings. The President of the Council, upon the permanent council committee’s request made at least three days before the meeting, can arrange suitable forms of publicity for the meeting.

The examination of matters which the committees must report to the Regional Council begins with an explanation made by a Member named by the President of the Committee. After this, a general debate takes place and examination of the individual articles. At the end of the discussion the committee nominates a majority rapporteur empowered to report to the council. Any dissenting group within the committee can nominate a minority rapporteur. The Committee can ask the President or members of the REB to answer, also in writing, questions and inquiries or to report to the Committee on the progress of regional administration. In addition, the REB can be questioned with regard to laws, regulations or resolutions accomplishment. Furthermore, the Committee can carry out inspections, obtain acts and documents, and call personnel from the Region’s administration. The committees’ inspection activities can result in the adoption of resolutions, accompanied by a report, to be presented to the Council.

As far as possible, the norms which govern discussion in the Council are observed in Committees’ discussions. The Committees can activate procedures for consultation with Local Governments and delegations of citizens (see paragraph 5).
6.5 The levels and nature of public involvement in the processes

6.5.1 The institutes of popular participation

Title VII of the Statute of the Region of Tuscany is dedicated to the participation. The main ways of popular participation in the legislative processes include referendums, and bills on popular initiative. The referendum can only be for the purpose of repealing both existing regional laws and administrative acts under the responsibility of the Council (articles 77 and 78 of the Statute). In the same way as article 75 of the Italian Constitution provides at the national level (referendums are not allowed for taxation laws and budget laws), article 79 of the Statute of the Tuscany’s and article 2 of R.L. 12/76 state that repeal cannot be effected through referendums for the RDP, the Sector Planning Documents and the for laws and for regulations regarding the budget and taxation.

The limitations on popular initiatives are different. The same exclusions for taxation and budgeting are provided for in article 2 of R.L. 19/72 (Norms on popular initiatives on the law, on regulations and on administrative acts), only for administrative acts so on the basis of this norm popular initiative proposals for laws and regulations pertaining to matters of taxation and budgeting are possible in Tuscany. However, it is necessary to remember that, according to article 23 of the Statute, the preparation of the Budget and the Statement of Account is the exclusive responsibility of the REB.

6.5.2 Consultation and Planning

The Statute of Tuscany states that the process of elaboration of economic planning must be participatory. In fact, Article 5 of the Statute provides for “the Region, for the purpose of guaranteeing the democratic character of national and regional planning in all its phases, assures the participation of the Local Governments and the contribution of trade union organisations”.

The planning system of Tuscany was recently changed by R.L. 49/99 according to the principle that greater importance should be assigned to participation, to transparency, to institutional cohesion and to the involvement of all interested parties. Amongst other things, regional planning proposes:

- to encourage public authorities, institutions and bodies and private entities and citizens to participate in the choice of the objectives of development, in the definition of the strategies, in the accomplishment of the consequent policies;
- to guarantee transparency in decisions, the certainty of right and obligations in the relationships between public authority and private citizens;
- to encourage the full development of the person according to the principle of equal opportunity between individuals, men or women.
In particular, article 15 of R.L. 49/99 provides for the participation of LGs and of economic and social organisations in the process of regional planning through procedures of consultation and agreement.

The procedures of **consultation** are aimed to gather opinions and proposals during the planning processes.

The procedures of **agreement** are aimed to the harmonious identification of the planning objectives between the REB and the interested economic and social associations. Agreement pervades the whole process of planning and must be promoted in preparing the proposals for regional budget, RDP, EFPD, and in the Sector Planning Documents. Agreement is carried out between the REB, the LGs associations and the representatives of entrepreneurs, dependent workers and co-operative organisations. Agreement can be extended to other directly interested public and private organisations according to specific topics.

With Deliberation no. 328 of 2nd April 2001 the REB approved the “Rules for regional agreement and consultation procedures”. “Table of Agreement” was instituted and the documents approved in its sittings are considered to be “binding” for the REB and assume external relevance, which is to say, they are not only valid for the parties who participate directly in the discussions.

The Table examines the results of the planning cycle for re-orienting the action’s, the strategies, identifying and enhancing good practices. The agreement operates on two distinct but correlated levels:

a) **general agreement**: this applies to themes of general interest in order to harmonize strategies and plans;

b) **sectorial agreement**: this applies to themes of specific interest, identified by the “Table of general agreement”; it is organised functionally, based on the ambits of operation and on the priorities identified in the RDP; by necessity it links up with the general agreement.

The themes under discussion are preceded by a technical explanation, directly produced by the sectorial Tables or by work groups constituted of officials from the regional Administration and technical experts. The contributions of the work groups are directed to the Table of general agreement.

Participation in the regional planning by the interested institutions or associations, can also be the result of programme agreements negotiated with the REB.
Table 8 – The public authorities, private organisations and citizens which compose the Table of Agreement

<table>
<thead>
<tr>
<th>Confindustria</th>
<th>Confesercenti</th>
</tr>
</thead>
<tbody>
<tr>
<td>A.P.I. of Tuscany CONFAPI</td>
<td>Confcommercio</td>
</tr>
<tr>
<td>C.N.A.</td>
<td>Confcooperative</td>
</tr>
<tr>
<td>Confartigianato</td>
<td>Confagricoltura</td>
</tr>
<tr>
<td>C.A.S.A.</td>
<td>C.I.A.</td>
</tr>
<tr>
<td>Regional League of Cooperatives</td>
<td>Coldiretti</td>
</tr>
<tr>
<td>C.G.I.L</td>
<td>C.I.S.L</td>
</tr>
<tr>
<td>U.I.L.</td>
<td>URPT</td>
</tr>
<tr>
<td>UNCEM</td>
<td>Committee for equal opportunity</td>
</tr>
<tr>
<td>Environment Protection Associations</td>
<td></td>
</tr>
</tbody>
</table>

Naturally, the involvement of the LG in the agreement is more intense compared to that of other organisations. In fact, Deliberation no. 376 of the 9th of April 2001 approved the Protocol of Entente between the REB and the associations of the LG (ANCI, UNCEM, URPT). Until the definitive approval of the new Regional Statute, relations between the REB and the Associations of LG take place on two distinct but complementary levels:

a) the Permanent Table of Agreement between the REB and the Associations of LG, regulated by the Protocol of Entente of 09/04/01 (also called Table of institutional agreement);

b) the Council of the Local Autonomies, the organisation representing Tuscan LG, who provide its advice in regional legislative procedure (see paragraph 3).

The REB is obliged to bring the proposals of regional planning acts before the representatives of the LG Association, during the meetings of the permanent Table of Agreement.

The agreement process is activated by the REB and above all contributes to the elaboration of the drafts and proposals for the regional planning and the budget documents for which the REB is responsible. However, the RC and Committees to can activate the process of consultation with bodies, associations and organisations representing social and economic forces according to their regulations and statutes. In particular, the Committees can promote consultations with LGs on documents which are of specific interest to them or on questions for which a request for the advice of the Council of Local Autonomies is not mandatory. In addition, the Committees can activate consultations with associations of citizens, private and public organizations, trades union and industry associations, experts, and personnel from the regional administration. During the scrutiny of the EFPD draft it is usual for the Committee to reserve some sittings for consultations with of LG, organisations and associations which in practice coincide with the participants of Tables of Agreement. Naturally, it is not double procedure but an important opportunity in which associations and organisations can express
their own view to the Council. This view does not necessarily coincide with that in the document approved by the Agreement Table, for this is the fruit of compromises, simplifications, and is normally the will of a majority (see the following paragraph for empirical evidence). The Committee, on receiving the document in which its business is assigned to it, evaluates whether or not consultation is appropriate and decides who should be consulted, and which ways the consultation should take place. The Committees, in the sittings in which the consulted LG organizations and associations participate, cannot debates the conclusions of the consultation.

6.5.3 Transparency, communication and access to the documents

The Statute of the Region recognises the right of social groups and of citizens to information about the Region’s activities as a premise for effective democratic participation. On the basis of article 41 of R.L. 9/95 (Dispositions in matters of administrative procedures and of access to documents) the following administrative acts proceedings are subject to publication:

- the final acts of the administrative proceedings;
- the general administrative acts (that is acts regulating: the organisation of the Regional offices; the administrative procedures; the availability of the documents; the application of legal norms; with exceptions for the orders of service and notes for exclusive internal use);
- the proposals for laws and regulations and other proposals for administrative documents submitted for approval to the Regional Council.

The publication takes place in the Official Bulletin of the Region (BURT). Article 60 of the Statute, which is concerned with administrative procedure, states that specific forms of publicity must be identified, according to the case in order to effectively make the knowledge of the proceedings known to the largest number of citizens. The same norm provides for each citizen being able to obtain a copy of the administrative documents. R.L. 9/95 states that the administrative documents that are not subject to publication can be known directly by citizens, by means of the access to the documents. An instrument used to publicise the activities of the Council and of the Committees is the fortnightly review “Regional Council of Tuscany” which has “the aim of spreading complete and impartial knowledge of the Regional Council in the Region” (article 131 of the Regulations of the Council). This periodical is published by the Council’s Press Office and is also posted in electronic form on the Regional Council’s web site (www. consiglio. regione. toscana. it).

The Region of Tuscany’s web site (www. regione. toscana. it) is rich in information concerning the Region’s activities. It not only contains press releases, but also minutes of Council sessions and Committee meetings, schedules for the Committee works, and more structured information elaborated by the staff offices of various regional offices. Even this article has made use of this source of information and data.
A recent regional law (R.L. 22/2002 “Regional Regulations on Information and Communication”) provides for the law, the planning documents, the acts, and initiatives of Region’s Bodies and Offices to be made effectively known to all the citizens. The activities of information and communication must be enacted using the most adequate media, including on-line and ICT systems.

6.5.4 Socially sensitive categories

R.L. no. 12/2000 instituted the “Regional Committee for the Fund for the occupation of the disabled” which, amongst other things, formulates proposals to the REB on distribution and sharing of the Fund’s resources. The REB establish the guide-lines for the management of the Fund, approve the programme of resource distribution, and verify the results of its activities. In the late 80’s, nearly all Regions in Italy instituted a “Regional Committee for the promotion of equal opportunities man woman”. These have a consultative function and can make proposals to both the RC and the REB, as well as having links with similar local, state and European Union organisations. In Tuscany this body was constituted by R.L. 14/87 and is placed under the wing of the Regional Council. By considering the acts, planning documents and annual reports, which can be consulted on the Committee’s web site, its activities seem to be centred on the organisation of seminars and communication initiatives aimed at raising the culture of equality and equal opportunities. Its influence on acts approved by the Regional Council is limited, with reference to the matters concerned in the present study. The Committee produces advices (optional) and is one of the organisations which participates in the Tables of agreement.

6.5.5 Ombudsman (R.L. 4/1994)

Within the limits and according to the provisions of R.L. 4/94, the Ombudsman assures non-judicial protection of rights and of individual or associated citizens’ interests (resident in the region or Region’s services users). The Ombudsman intervenes in cases of lateness, irregularities and omissions in activities and in the behaviour of public officials, and exercising his duty in full autonomy, without hierarchical subordination. The Ombudsman can not only intervene in the Regional Administration, but also in the bodies dependent upon or connected with the Regional Administration or which carry out functions delegated by the Regional Administration. The Ombudsman intervenes upon the request of interested individuals, of bodies and associations and social groups or, in the expected cases, provided for.

6.6 Empirical data and evidence on the practical implementation of such processes

R.L. 36/01 became effective in 2001, so 2002 is the first financial year in which the planning procedures provided by this law have a result. So, as far as is possible, the analysis of the empirical evidence of the processes through which the definition of the planning documents, the budget and the statement of accounts is reached, refers to the Council planning activity in 2001.
6.6.1 Executive Board and processes of Agreement

As previously affirmed, the REB is the body that moves proposals in the process of planning, budgeting and auditing elaboration, as well as in the assessment of management. It also assumes the initiative for Tables of agreement. The activity of the Tables of agreement is quite intense and is documented on the web site of the REB (www.rete.toscana.it). In the period from April 2001 (EFPD proposal 2002 – 2004) to July 2002 (updating of the RDP for the period 2003-2005) there were 31 sittings in 16 months, at the end of which the Table of general agreement assumed its own “resolutions” (one or more than one per sitting, according to the arguments treated). The resolutions concern specific planning documents or budget documents, or sectorial problems of general interest (transport, health, industrial zones, etc.). The sessions of the individual sectorial Tables and of the work groups are naturally more numerous, but as they do not conclude with documents having external relevance, the results are not published, but are used in general Tables.

Regarding the Tables of Institutional Agreement, 20 sittings were held in the period between October 2001 and October 2002, not all of which concluded by reaching an agreement or the definition of a shared position on the treated theme. Participating in the sittings are the representatives of the Region (generally the President, vice-president and/or the responsible Member of the REB), the representatives of the three Associations of LGs above mentioned, and, usually, Region’s officials and a representative from the Council of Local Autonomies.

6.6.2 Committees

In the period of the seventh regional legislature (from 24th of May 2000 to 31st December 2001) the Council of Local Autonomies, which is not composed of Members of Council but whose advice has a similar function than those of Committees, was asked for 40 advices regarding draft bills (the number of bills was 148 in total) and 35 relating to proposals for resolutions; it produced a report in 23 and 27 out of the cases, respectively.

In the same period, the First Committee, responsible for planning and budgeting, but also responsible for general and institutional affairs, was asked to report its advice about draft bills 40 times and 23 times about proposals for resolution, expressing its advice 36 and 17 times respectively (the total number of advices requested to all the Committees, including the Council of Local Autonomies, is 181 for bill proposals and 523 for resolutions or deliberations). Incidentally, the regional laws approved in the same period were 80, of which 20 concerned planning, budget and financial matters.

A more detailed analysis was given to the reports of the sittings held by the First Committee in 2001 (which cover a planning and annual budget cycle, from the EFPD draft to the Committee’s report issuing on the financial and budget laws), and, only for the planning cycle, in 2002. The relevant sittings, that is to say, those in which themes connected with the planning, with the budget or with the statement of accounts, numbered 12 in 2001. Their duration varied from 10 minutes to 1 hour 55 minutes (averaging 45 minutes).
6.6.2.1 The proposals for the financial, budget, balanced budget and statement of accounts bills

By the study, it seems the bills for budget variations, statement of accounts and balanced budget are usually approved in only one sitting. No speech was held by the members of the Committee or others attending the sitting (other Members of Council, Members of the REB, officials, etc.) in addition to those of necessity, that is the speech of the President who introduces the business and those of the Committee’s rapporteurs. The additional proposals for budget change are dealt with similarly (in 2001 there were only three budget variations brought about by law).

In contrast, the proposals for the financial and budget law takes four or five sittings. In the first sitting there is an introduction by the Alderman for the budget and the planning, who illustrates the proposed budget bill. A certain number of questions or observations are moved by those present, principally for the purpose of obtaining explanation of unclear points. After this there are two or three sittings dedicated to discussing the proposed budget bill, along with the financial bill, during which, above all, additional information is provided about specific content in the budget and on the effects of the provisions of the finance law. The advices acquired from the other committees are made known, and these can contain formal proposals for amendments. Some amendments are also introduced by Council Groups, and the Committee considers them before reporting to the Council on the two bills. In the case examined, the Committee’s resolution has always been obtained with a vote to the contrary of the minority groups.

Once advices have been positively discharged, it is usual for the President of the First Committee to be nominated at the termination of the discussion as the person to relate to the Council the majority view on the financial law and budget law proposals. At the same time, a person to relate the minority’s view is nominated (in 2001 the Vice-President of the Committee was entrusted; since it is also usual to appoint a member of the opposition as vice-president of the Committee).

6.6.2.2 Planning Documents Proposals

The first of the Committee’s sittings (7 in 2002; 6 in 2001) dedicated to the following year’s planning was that which saw the presentation of the EFPD. The first sitting is usually dedicated to fixing consultations as well as the schedule for Committee businesses. In the second sitting, 14th June in the 2001, the budget and planning Alderman presented the First Committee with the draft EFPD, and illustrated the EFPD report. By this phase, the planning procedure involving the Executive Board seeing political interlocutors and social participants of the Table of agreement had already taken place. In reality, the participation of these parties

---

30 The PRS is only approved at the beginning of the legislature and is valid for its entire duration; it is revised and updated annually.
cannot be considered to be concluded with the presentation of the EFPD proposal to the Committee, but continues during the Committee’s discussion of the document and eventually, during its discussion in the Council. In fact, the second sitting is dedicated to the presentation of the report (in 2001 there were only two brief interventions by two committee members) whilst the real discussion is postponed until the following sittings. One (in 2002) or two (in 2001) sittings dedicated to the real discussion follow. In particular, it was decided to convene for the sitting of 21 June: the Provincial Association of Chambers of Commerce, trades union organisations, local bodies, Universities and the CNA (National Confederation of Artisans and Small and Medium Firm). Then for the sitting of 22 June convened the economic representatives of industry trade and professionals workers, and the Committee for Equal Opportunities. In 2002 the consultations were held on June 13th.

In the final sitting (2d July 2001; 8th July 2002) the President of the Committee presents to the Committee’s members what the advices of the other interested Committees are (Productive activity; Health; Territory and Environment), together with the additional amendments proposed by the REB following the internal discussions which have taken place in the meantime. In addition, a summary scheme of the progress of the regional plans and programmes is distributed, as required to the Executive Board. The proposal of resolution already contains the modifications resulting from the consultations with the economic and social representatives. This is the definitive proposal, and it is briefly presented by the budget and planning Alderman and the advice on it is approved by majority vote. In the cases examined, the opposition expressed its contrary vote and there was a brief comment by the opposition rapporteur. The entire sitting lasted 25 minutes in 2001 and 30 minutes in 2002.

6.6.3 The Council

The financial, budget, balanced budget and settlement of accounts bills

In 2002 the Council took two sittings to approve the financial law and the budget law, with about twenty Members of Council (of 50 who compose the Assembly) speaking, belonging to the various political alliances represented in the Council.

The laws of approval of the balanced budgets and of changes in the budget were approved in one sitting; usually, the changes in the budget are approved by using the procedure provided for urgent deliberations. The number of speeches during the sittings was quite limited, for example, for the settlement and for the second change in the 2002 budget, apart from the proposing (the budget and planning Alderman) three Members of Council spoke, of which two were the majority and minority rapporteurs.

The management report and the statement of accounts for the previous financial year are examined in the same sitting. For the documents concerning the financial year for 2001, reports, debates, declarations of votes, votes on individual articles in the law, and the final vote by roll-call voting (only for the statement of accounts), all took place in only one single sitting. In the course of this one sitting, in addition to the proposing Alderman, three Members of Council spoke, two of whom being the President of the Committee, rapporteur for the majority, and the rapporteur for the minority.
6.6.3.1 The proposals for planning documents

Decidedly more lively was the debate to approve the EFPD. In 2002, the treatment, the debate and the vote took place in one sitting (morning, and reprised in the afternoon) and which saw the speeches of 20 Members of Council, in addition to the proposing Member of the REB. Representatives of social and economic forces were not consulted, but the report of the Committee takes into consideration the consultations that took place in the Committee’s seat. In 2001 the discussion concluded within one sitting, was poorer, and registered the speeches of only 12 Members of Council who included the rapporteurs for the majority and opposition.

6.7. Reasons for main differences with Scotland

In the present paragraph a brief comparison will be drawn between Scotland and Tuscany, with regard to the budgeting and auditing processes and the roles that the legislative assembly and the Committees charged with financial matters play in it. Obviously, the stress will be on features and particular aspects of institutions, rules, and evidences of Tuscany, whilst the Scottish budget system will be referred to only in order to identify the relevant topics. The main aspects considered are the following:

- legislative proceedings
- functions of the Committees and others bodies or individuals involved in the processes
- popular participation and consultation of representatives of entities, bodies, organisations, associations not related to the Region.

*Table 9 shows some institutional features of the Tuscany Region, relevant for the planning, budgeting and auditing processes, compared, when possible and sensible, with correspondent elements in Scotland.*

**Table 9 – Features of the Tuscany institutional framework and differences with Scotland**

<table>
<thead>
<tr>
<th>TUSCANY</th>
<th>SCOTLAND</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Legislative powers</strong></td>
<td>The Scottish Parliament has been given power to make primary and secondary laws. Specified matters are reserved for the central Government. There are two kind of reservation:</td>
</tr>
<tr>
<td>The Council has the power to make primary and secondary laws. Matters within the power of the central Parliament are listed, as well as matters whose regulation is shared between the regional and central authority:</td>
<td>- General Reservations: a number of matters are listed, which are outside the competence of the Scottish Parliament;</td>
</tr>
<tr>
<td>- State exclusive legislative competence: matters are listed in detail</td>
<td>- Specific reservations: rules to determine the legislative competence of the Parliament are</td>
</tr>
<tr>
<td>- Shared legislative competence: matters are listed in detail</td>
<td></td>
</tr>
</tbody>
</table>
- Regional exclusive competence: all the remaining subjects.

<table>
<thead>
<tr>
<th>Legislative proceedings</th>
<th>detailed and complex</th>
</tr>
</thead>
<tbody>
<tr>
<td>The role of the relevant or lead Committee is different, according to the proceeding followed:</td>
<td>In the initial stage of introduction into the parliament, different proceedings are followed, depending on who suggests the proposal of bill:</td>
</tr>
<tr>
<td>- reporting proceeding: result of Committee examination is a report for Council</td>
<td>- Executive</td>
</tr>
<tr>
<td>- drafting proceeding: the Council devolves to the relevant or lead Committee the approving of single articles of the bill, reserving the final approval to itself.</td>
<td>- member(s) of committee</td>
</tr>
<tr>
<td>Choosing between the two proceedings depends on the subject and relevance of the bill and on Council decision.</td>
<td>- non-member of committee</td>
</tr>
<tr>
<td>Also in case of Committee bill, the Executive has a substantive role in indicating if it will or not introduce the bill.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>- private</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Correspondence between Bodies, Boards, Committee and Members’ roles</th>
<th>Correspondence between Bodies, Boards, Committee and Members’ roles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Presidente della Giunta Regionale (President of the Regional Executive Board; he is the chief of the regional administration; he is referred to also as “President of the Region” or “Governor”)</td>
<td>1. First Minister</td>
</tr>
<tr>
<td>2. Giunta Regionale (Executive Board)</td>
<td>2. Executive</td>
</tr>
<tr>
<td>4. Presidente del Consiglio Regionale (President of the Council)</td>
<td>4. Presiding Officer</td>
</tr>
<tr>
<td>5. Ufficio di Presidenza (Office of the President of the Council)</td>
<td>5. Deputy Presiding Officers</td>
</tr>
<tr>
<td>6. Commissioni Consiliari (Committees of the Council). There are two kind of Committee:</td>
<td>6. Scottish Parliament Committees, also subdivided in:</td>
</tr>
<tr>
<td>- Commissioni Permanenti (Permanent Committee); each of them are responsible for a certain set of subjects; the main duty is referring to the Council on the bills;</td>
<td>- Mandatory Committees; the Parliament may approve a motion from the Parliamentary Bureau proposing the establishment of new Committees, but it cannot disband such kind of Committee;</td>
</tr>
<tr>
<td>- Commissioni Speciali (Special Committee); they are established in order to debate or investigate specific subjects or problems; without legislative competence, if not the ordinary power of proposal.</td>
<td>- Non-Mandatory Committees; the Parliament may decide, on a motion from the Bureau, to disband any such Committee</td>
</tr>
<tr>
<td>Each Member of Council joins a Gruppo Consiliare (Council Group) on a Party basis. Council Groups have a relevant role in organising Council business, move proposals of bills or others acts submitted to the Council approval. Both Committees and Groups are granted staff personnel.</td>
<td>The informal Group of the S.P. Committee Conveners do not have correspondence in Tuscany, but similar functions are likely to be carried out by the Presidents of Council Group.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Specialised Bodies or Organisations supporting the legislative Assembly</th>
<th>Specialised Bodies or Organisations supporting the legislative Assembly</th>
</tr>
</thead>
<tbody>
<tr>
<td>Budget and financial planning research organisation: the Tuscany Council (as well as others bodies or offices of the Region) is supported by the IRPET (Tuscany Region Institute for Financial Planning).</td>
<td>It is difficult to indicate in Scotland public sector an organisation similar to the Tuscany research institute. The Research staff of the Information Centre is quite different, in that it is a Parliamentary staff and not an independent</td>
</tr>
</tbody>
</table>
The Council, as well as the Committees, may appoint a number of experts, in order to obtain advice from organisations and individuals who do not belonging to the Region administration staff personnel.

Without regard to who presents the bill proposal, Council and subject Committee play a key-role in ensuring good quality of bill drafting. The needed “technical” skills should be granted by the Ufficio Legislativo (Legislative Office) of the Council Department. Of course, staff units contribute to the drafting of proposal coming from Committee and Groups, or their members. However, the Legislative Office is not supposed to give his advice to people willing to propose a bill, because its task is to support the Council and Council Members in drafting their proposals or their amendments regarding proposals introduced by other people or bodies entitled to do it. Also local authorities are allowed to initiate legislation (it is a kind of “popular initiative”): in this case, it is likely that they have some skill in drafting regulations and similar texts.

| The NEBU (Non-Executive Bills Unit) seems to have a similar role in supporting the process of legislation within the Scottish Parliament, focused on private, Parliamentary Committees and individuals members’ sources of bills. | S.P. Committees may also decide to appoint Expert Panels and/or advisers to assist them in their work, having regard to available in-house resources. |

| The Council, as well as the Committees, may appoint a number of experts, in order to obtain advice from organisations and individuals who do not belonging to the Region administration staff personnel. | organisation. |

### 6.7.1 Plans, Budgets and Reports

In Tuscany’s system, both budgets and annual reports are approved by means of a primary law by the Regional Council. In both cases, only the Executive is entitled to introduce the bill. As for budget changes involving transfers between BFUs, which are the units relevant for assembly vote, they have to be approved with a law, but the bill follows the ordinary proceeding.

There are no restrictions on the legislative assembly (and its members) modifying the budget proposed by the Executive (that is the only entity entitled to do so).

All the proposals regarding the budget have to be presented as “Ordine del giorno” (list of business) in the relevant Committees, being discussed in the Council. If the Executive agrees with the proposals or Committees approve them, the list of business is attached to the relevant or the lead Committee report, to be discussed in the Council. If the Executive does not agree with proposals or Committees reject them, the list of business can be represented to the Council with only 3 Members of the Council or a Group President signing it.

Amendments to the budget bill follow the same proceedings than amendments involving increasing the expenditure: they are submitted to the relevant Committees, and these have to report to the Council.
In short, in Tuscany the procedure for the approval of budget bill is very similar to the ordinary one, including powers and roles of Council, Committees and Executive: vote on the budget is not considered to be a vote of confidence in the Executive.

It must be noted that, before the institutional and budgeting reform, the Council played a very important role in drawing up the budget and it passed very detailed decisions on how to spend public money. The budgeting and accounting reform, indeed, aimed to make the budget a more flexible tool and to distinguish the role of the Council (guidance and audit/inspection/supervision) and the role of the Executive (responsibility for implementation of policies and results).

Like in Scotland, the budgeting process starts after the approval of the previous year’s annual report. For this purpose, the Council votes a bill, passed only with the favourable vote of the overall majority of the members. The requested majority is more severe than for the budget bill: however, decision about the report stimulates a poorer political debate and interest than the budget debate.

*Table 10 –The Annual Budget Process –Indicative dates and descriptions of the process*

<table>
<thead>
<tr>
<th>MONTH</th>
<th>TUSCANY</th>
<th>MONTH</th>
<th>SCOTLAND</th>
</tr>
</thead>
<tbody>
<tr>
<td>JANUARY</td>
<td>REB Elaborates the EFPD sector drafts and</td>
<td>BY 2 APRIL</td>
<td>Publication of Annual Expenditure Report</td>
</tr>
<tr>
<td>FEBRUARY</td>
<td>their consolidate; elaborates the statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>of accounts</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MARCH</td>
<td><strong>REB and the interested economic and social</strong></td>
<td>APRIL</td>
<td>Finance Committee</td>
</tr>
<tr>
<td>APRIL</td>
<td><strong>organisations</strong></td>
<td>MAY</td>
<td>oversees consultation process with</td>
</tr>
<tr>
<td></td>
<td>Active consultation and general and</td>
<td></td>
<td>subject committees</td>
</tr>
<tr>
<td></td>
<td>sector agreement on the EFPD draft, the</td>
<td></td>
<td><strong>Subject committees</strong></td>
</tr>
<tr>
<td></td>
<td>statement of accounts and the balanced</td>
<td></td>
<td>examine relevant chapter and send reports</td>
</tr>
<tr>
<td></td>
<td>budget bills</td>
<td></td>
<td>to Finance Committee</td>
</tr>
<tr>
<td>BY 30 APRIL</td>
<td>REB Adopts and presents to the Council:</td>
<td>JUNE</td>
<td>Finance Committee</td>
</tr>
<tr>
<td></td>
<td>- the EFPD</td>
<td>(before</td>
<td>co-ordinates the responses of the</td>
</tr>
<tr>
<td></td>
<td>- the statement of accounts and the</td>
<td>summer</td>
<td>subject committees and reports to Parliament</td>
</tr>
<tr>
<td></td>
<td>management report</td>
<td>recess)</td>
<td><strong>Parliament</strong></td>
</tr>
<tr>
<td></td>
<td>- the balanced budget bill</td>
<td></td>
<td>debates the Report</td>
</tr>
<tr>
<td>BY 30 JUNE</td>
<td>REB Adopts the technical regulations for</td>
<td>BY 20 SETTEMBER</td>
<td><strong>Executive</strong></td>
</tr>
<tr>
<td></td>
<td>the drawing up of the annual budget</td>
<td></td>
<td>publishes draft budget and spending plans</td>
</tr>
<tr>
<td></td>
<td>Audit Committee</td>
<td></td>
<td><strong>Subject committees:</strong> report to the Report</td>
</tr>
<tr>
<td></td>
<td>Reports on the statement of</td>
<td></td>
<td>on</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
accounts bill (lead committee)

**First Committee**
Reports of the budget bill, on the balanced budget bill, on the EFPD (lead committee); advice on the statement of accounts bill

**Inspection Committee**
Advice on the EFPD, on the statement of accounts bill, and on the balanced budget bill

**RC**
Approves
- The statement of accounts bill and the management report
- The law of the balanced budget

<table>
<thead>
<tr>
<th>JULY AUGUST</th>
<th>July to August</th>
</tr>
</thead>
<tbody>
<tr>
<td>REB</td>
<td>Elaborates the financial and the budget bills</td>
</tr>
<tr>
<td>RC</td>
<td>Approves the EFPD</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>OCTOBER DECEMBER</th>
<th>October to December</th>
</tr>
</thead>
<tbody>
<tr>
<td>Subject committees examine and send reports to Finance Committee</td>
<td></td>
</tr>
<tr>
<td><strong>Finance Committee</strong> considers the draft budget and may propose alternative and produces a Report</td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>SEPTEMBER OCTOBER</th>
<th>September to October</th>
</tr>
</thead>
<tbody>
<tr>
<td>REB and the interested economic and social organisations:</td>
<td>Activate consultation and general and sector agreements on the financial and budget bills</td>
</tr>
<tr>
<td>MID DECEMBER (before christmas recess)</td>
<td>- Parliament debates Report</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BY 31 OCTOBER</th>
<th>By 31st October</th>
</tr>
</thead>
<tbody>
<tr>
<td>REB</td>
<td>Approves and presents the RC with the proposals for the financial and budget bills</td>
</tr>
<tr>
<td>JANUARY FEBRUARY</td>
<td>Parliament debates Budget Bill and votes</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>BY 31 DECEMBER</th>
<th>By 31st December</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Committee</td>
<td>Reports on the financial and budget bills (lead committee)</td>
</tr>
<tr>
<td><strong>Inspection Committee</strong></td>
<td>Advice</td>
</tr>
<tr>
<td>Other subject Committees</td>
<td>Advice</td>
</tr>
<tr>
<td>RC</td>
<td>Approves the financial and the budget laws</td>
</tr>
</tbody>
</table>

Compared with Scottish procedure, an apparent difference is that in Tuscany’s system there is a specific process for the approval of the main planning document of the Region, the DPEF. Drafting, debating and approving the DPEF is a process linked to the annual report scrutiny and approval process, and it occurs in the first half of the year.
So, in the Region of Tuscany there are two planning processes in the same year: in the first semester the general planning process (DPEF) is carried out; in the second half-year, the budgeting process takes place. Both processes involve all the actors interested in the decisions, and also consultative procedure are activated twice.

Due to the institutional role of the Council and considering that the objectives of regional policies, measures and interventions are fixed in the DPEF, involvement of Council and Committees in the planning process is deeper than in the budgeting process. Indeed, the First Committee is used to activate consultations only during the planning process. However, while the Executive has given itself mandatory rules about consultations, for the Committees consultations are only a voluntary opportunity. Evidence suggests that formal participative procedures are only seldom followed by Council and Committees. Apparently, members of the Council are more confident about informal links with their electorate or with interest groups.

Council Groups, i.e. Members of Council organised on a party basis, play a relevant role in representing the interests of citizens and organisations to the Council. Such Groups, it has to be pointed out, have formal functions in the running of Council business: e.g., their Presidents are entitled to present proposal and amendments to the Committees and to the Council, including those regarding budget and financial matters.

6.8 Conclusions and comments

Everything considered, in the Tuscan system planning, budgeting and auditing processes seem to be supported by a considerable degree of popular participation, if by “popular participation” the involvement of the representative of a large number of bodies, entities, organisations and associations is meant. When the ways through which consultation can be enacted are formalised and made public, citizens and other stakeholders seem to be encouraged in participating in the budget making processes and scrutiny activities. Of course, this also makes the process more transparent, as in the case of the Agreement tables.

As for attempts improve the involvement of citizens as individuals, the main interventions are in terms of enforcement of the right of citizens to be informed about services, activities and performances of Region of Tuscany administration/offices and related entities.

Pressures for greater transparency and accountability seem to regard/be addressed to all the political actors in the Region (Council, Council Members, Committees, Groups and Executive) but it is not easy to delineate the individual policy of each of them.

In conclusion, the recent institutional reform and the more recent budgeting and accounting reform have affected/modified roles of the Council and of the Executive, strengthening the autonomy of the latter and its responsibility for the implementation of programmes of the Region and for the administrative performance. On the other hand, the Council is
strengthening its functions of guidance and supervision, even if, regarding budgeting and financial matters, a consolidated routine for the Council’s business does not exist yet.

If the Tuscan Executive experience of the agreement tables can be considered to be good practice, a way to encourage participation in planning, budgeting and auditing processes, for the Scottish Parliament Committees, as well as for Tuscany Council Committees, could consist of organising periodical agreements with representatives of social and economic forces in the territory.

As for the different degree of active participation of the Members of Council in debates and others parliamentary activities, this seems to correlate with the share of decisional power they own relevant to different businesses, and that power depends on the roles and procedures characterising each decisional process. So, it is unlikely that the participation of an actor in a process will be modified, without modifying the entire system of roles and procedures.
CIPFA Annual Dinner: Invite to attend

Background
Each year, the Chartered Institute of Public Finance and Accountancy (CIPFA) holds a dinner in London to which around 250 individuals are invited. Those invited are drawn from the field of Public Finance throughout the United Kingdom and include representatives of prominent organisations from Scotland, England, Northern Ireland, Wales, the Republic of Ireland and Europe.

Invite
An invitation from the President of CIPFA to the Convener of the Committee to attend this year’s dinner is attached. A number of key individuals from Scotland are expected to attend, including representatives of the Scottish Executive, Audit Scotland, Local Authorities and a range of public service organisations in areas such as Health, Higher Education and Housing. It is understood that similar invitations have been issued to the Conveners of the Finance or similar Committees at Westminster, Cardiff and Belfast.

The dinner represents a unique opportunity for contact to be made with a wide range of individuals and organisations across the public finance sector. Those attending in previous years have taken advantage of the chance to discuss issues of mutual interest and concern and to establish and maintain contacts which lead to long-term benefits. It is anticipated that should the Convener attend, issues that the Committee will have identified as being ones which its successor Committee should pursue can be discussed informally with relevant individuals.

Budget
It is not anticipated that the trip will be expensive, involving air travel to London and one overnight stay. Due to the current low cost of flights between Edinburgh and London, the total cost of the trip should be no more that £200. That will cover overnight accommodation and transfers from Heathrow to central London as well as a return flight.

Should the Committee agree that the invitation be accepted, a request for funding will go before the Convener's Group. Funds are available within the appropriate budget.

Decision
The Committee is asked to agree that the invitation be accepted and that the Convener attends the dinner on the Committee’s behalf.

David McGill
January 2003
Dear Mr McCabe,

I am very pleased to invite you to the Institute’s Annual Dinner to be held at the Savoy Hotel, London, on Thursday 27 February 2003, at 7.00 for 7.30pm.

The venue is the Lancaster Room at the Savoy Hotel and dress is black tie. Please respond by Friday 7 February 2003 to Laila Pinch, CIPFA, 3 Robert Street, London, WC2N 6RL, telephone 020 7543 5726, email: laila.pinch@cipfa.org or fax on 020 7543 5693.

I and my fellow CIPFA Council Members do hope that you are able to accept this invitation.

Yours sincerely,

Roger Tabor
President