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Colin Pidgeon

Budget System Laws: principles and good practice

This Briefing Paper follows on from Paper 62/11[1] which set out some recommendations for enhancing the Northern Ireland budget process. One of those recommendations – based upon international good practice – was that the future process should be enshrined in statute. One approach would be to produce a revised *Budget System Law.* The purpose of this Briefing Paper is to examine the good practice principles that should underpin such laws; to present an analysis of how current budgeting practice aligns with those principles; and, to assess whether certain aspects of budgeting are already covered by Northern Ireland statutory provisions.

[1]RaISe (2010) 'DFP's Review of Financial Process: considerations for improving the budget process' available online http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf

Executive summary

The first part of the research presented in this paper considers elements of budgeting law and practice in Northern Ireland against eleven *Sound Principles for a Budget System Law* identified by experts at the International Monetary Fund. It finds that in many instances the current system marries fairly well with those principles. In other instances, however, there are budgeting practices that do not seem to rest easily with the principles.

One of the principles is of more importance to national sovereign governments than it is to a devolved institution. The *stability* principle relates primarily to fiscal balance and public debt and is therefore not currently within the responsibility of the Northern Ireland Assembly. However, there are aspects of budgeting law and practice in this area that are likely to become of greater significance if, as anticipated, corporate taxation powers are devolved.

Many of those aspects of budgeting law and practice that *do* accord with the principles are fundamental:

- in principle, no public expenditure may be incurred without the approval of the Assembly;
- the requirement for the Executive to produce an agreed budget plan is enshrined in statute;
- budget authority is conveyed by the Assembly annually;
- resources and revenues are pooled in common before allocation; and,
- the independence, responsibilities and powers of the external audit institution (the Northern Ireland Audit Office) are clearly established in law;

Of those aspects of budgeting law and practice that *do not* accord with the principles, there are some that are likely to be seen as of considerable significance:

- despite the over-riding principle that Assembly approval is required for all expenditure, the Department of Finance and Personnel has estimated that around 25% of spending is incurred *without* express Assembly approval;
- the way the budget and estimates documentation is presented means that it is difficult – and in some aspects impossible – for MLAs to see how the funding they approve is actually to be committed to programmes and service delivery;
- the Executive's reporting of implementation and performance does not transparently link authorised spending to performance or results;
- some revenue measures are voted separately from the main budget approval process; and,
- the Assembly's authority to spend is granted part-way through the fiscal year.

There are further aspects of the financial processes that, again, do not accord with the principles but are perhaps not as fundamental, but may still be of some significance:

- expenditures are approved on a net rather than a gross basis;
- end-of-year carryovers are allowed only through a *non-statutory* arrangement;
- there is a mismatch between accounting, approvals and budgetary boundaries; and,
- there is no statutory contingency fund.

These points are drawn together in Box 1 as suggested areas for change to bring Northern Ireland budgeting law and practice further into line with the principles.

The second part of the paper presents a more detailed analysis of Northern Ireland practice against a framework of *six key areas of budgeting to be specified in law*. As above, the picture is mixed with some aspects of best practice being clearly met and other aspects not being met. In this section, various statutory provisions are identified that are likely to require amendment. In some cases, there is an absence of legal provision. This suggests areas that the Department of Finance and Personnel should consider placing on a statutory footing as part of its *Review of Financial Process.*

A number of observations may be made based upon the analysis:

1. The statutory requirement for the Minister of Finance to lay the a draft budget should be brought forward to earlier in the year to allow for the Assembly's agreement prior to the start of the fiscal year;

2. Further consideration of presenting fiscal data on a gross or net basis is required (RaISe briefing note forthcoming);

3. Placing the Budget Exchange scheme on a statutory footing would improve alignment with the principles;

4. The documentation that accompanies the budget should include (and this could be required by statute):

• Assessment of assumptions in relation to revenue projections;

• Off-budget expenditures should be clearly reported; and,

• Linkage between allocations and performance objectives should be included.

5. A statutory requirement for mid-term review of the budget should be introduced; and,

6. The Assembly should be asked to approve reallocations resulting from monitoring rounds at the time rather than retrospectively..

Contents

1. What is a 'budget system law'?

The term 'budget system law' (BSL) is used to cover a variety of legal instruments that have been adopted around the world to codify the rules for formulating, executing, and reporting on a state's annual budget. In addition, it covers requirements for governments to make statements about medium-term fiscal policy objectives.

Various terms are used in different states, such as:

- Public Finance Acts;
- Organic Budget Laws;
- Financial Management/Administration Acts;
- Fiscal Responsibility Laws;
- Public Debts Acts; and,
- External Audit Acts.

In the Northern Ireland context, there are a variety of sources of budgetary law – not least the Northern Ireland Act 1998, the Government Resources and Accounting Act (Northern Ireland) 2001 and the Assembly's own Standing Orders. It is quite common for the rules, procedures, limitations and requirements for both the executive's and the legislature's parts in budgeting to be drawn from a range of sources – such as constitutions, primary and secondary laws, agreements, informal practices and conventions.[2] In this regard, Northern Ireland's inherited system[3] does not appear particularly unusual.

The legal basis for budgeting can therefore range from there being no formal budget system law except the constitution to the other extreme where there may be many laws (such as in the United States, for example) relating to the budget system. Most countries' systems lie between these two points.

2. What are the purposes of budget system laws?

A Technical Guidance Note published by experts at the International Monetary Fund (IMF) identifies a number of reasons why countries may adopt a new BSL or modify an existing one. These include:

- To address specific budget-related problems;
- To introduce new budget principles – such as transparency, accountability, fiscal stability/sustainability and budget performance, for example; or,
- To strengthen or clarify the authority of the legislature or the executive.

[2] IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011)

[3] The public expenditure control system in Northern Ireland is modelled on that used by the UK Parliament which has developed over many years – and not always in a coherent manner.

In Northern Ireland, a number of drivers may be identified that cross these motivations. For example, the process of budgeting has been criticised on a number of occasions. In particular, the Committee for Finance and Personnel produced a number of reports in the 2007-11 mandate[4] which drew attention to a number of budgeting problems such as: a lack of engagement between Executive Departments and their respective statutory committees; a lack of sufficient financial information; the lack of a regularised budget process; and, the lack of transparent linkages between spending plans and intended policy objectives and outcomes, for example.

It can be seen that these issues are related both to transparency and accountability, and also to the relationships between the Executive and the Assembly.

3. Guiding principles for the main content of a BSL

It was noted in Paper 62/11 that good practice suggests that that the overall budget and financial process should be established in statute.[5]

Once a need to reform the legislation relating to budgeting has been established, it is important to identify those elements of the budget process that are *already* covered in law. To help with this process, eleven guiding principles have been established (these are attached as Appendix 1) by experts in the IMF's Fiscal Affairs department.

On reading those principles, it is immediately apparent that some elements are already established in Northern Ireland legislation. For example, the *Accountability* principle requires that an independent external audit body reports to the legislature on annual government accounts. The Comptroller and Auditor General and the Northern Ireland Audit Office (NIAO) fulfil this function. The NIAO's functions and responsibilities are set out in a number of pieces of legislation including the Audit (Northern Ireland) Order 1987, the Northern Ireland Act 1998, the Government Resources and Accounts Act (Northern Ireland) 2001 and the Audit and Accountability (Northern Ireland) Order 2003.

There are, however, some gaps. For example, the *Authoritativeness* principle states that "no expenditure can be made without the approval of the legislature." But, there are a number of elements of public expenditure in Northern Ireland that are *not* voted by the Assembly: the most significant of these is probably capital spending.[6] The Department of Finance and Personnel (DFP) estimates that as much as 25% of government spending is not formally voted.[7]

[4] Committee reports 61/10/11R, 44/10/11R, 66/09/10R and 41/09/10R all make some reference to aspects of the budget process. These are available online at: http://archive.niassembly.gov.uk/finance/2007mandate/finreports_07.htm (accessed 30 June 2011)

[5] RaISe (2010) 'DFP's Review of Financial Process: considerations for improving the budget process' available online at: http://www.niassembly.gov.uk/researchandlibrary/2011/6211.pdf (see page 13)

[6] Planned capital expenditure *is* approved in the Assembly's consideration of the Budget; capital is included in the Estimates but not in the Budget Bill, which is the mechanism through which the Assembly formally approves expenditure.

[7] Source: DFP presentation to Committee for Finance and Personnel on 22 June 2011

Table 1 overleaf presents an analysis of how the present financial system compares with all of the principles identified in the guidance. This analysis suggests a number of areas where change (through DFP's Review of Financial Process) may be beneficial in terms of transparency and accountability. These are presented following Table 1.

Table 1: Analysis of Northern Ireland Financial Processes against *Sound Principles for a Budget System Law*

Principle		Comments on Practice
Title	**Description**	**(numbers in brackets relate to suggested areas for change on page 10)**
Authoritativeness	Decision-making authority is specified clearly in the BSL. The executive prepares a draft annual budget law and supporting documents such as a fiscal policy strategy paper and a medium-term macro-fiscal framework; the legislature approves the annual budget, possibly after amendments; no expenditure can be made without approval of the legislature; the executive implements the annual budget and provides reports on implementation. It also has the authority to close and open public bank accounts. The authority to modify the approved budget law is specified in the BSL.	• The NI Executive prepares annual budget law; recent practice has been for multi-year budget plans. The Assembly passes budget acts each year to give legal authority to spend (known as 'appropriation'); • DFP estimates that around 25% of expenditure is not voted; **(1)** • The NI Executive reports on implementation in-year through monitoring rounds. These are not voted at the time – the Minister makes a statement notifying the Assembly of changes. No mechanism for reporting on implementation across years of multi-year plans; **(2)** • The authority to modify budget law is spread between Northern Ireland legislation, some Westminster legislation (particularly the Northern Ireland Act 1998) and Standing Orders.
Annual Basis	Budget authority is for a 12-month period. Exceptions are specified in the BSL, including multiyear appropriations and end-year carryovers. The annual budget law is enacted prior to the year to which it refers. All transactions are estimated for their one year effect.	• Budget authority is given for a 12-month period; • Rules for end-year carryovers are the responsibility of UK Treasury (EYF/Budget Exchange) and these are not statutory; **(3)** • The annual budget law is usually passed during the first quarter of the year to which it relates. **(4)**
Comprehensiveness	The "universe" (e.g., central government) is specified clearly. All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the BSL specifies any exceptions. Extra-budgetary funds are minimal, being established by law. Contingency funds are included in the budget law. Tax expenditures and quasi-fiscal activities are reported.	• The "universe" is not clearly aligned – DFP has stated there is a mismatch between accounting, approvals and budgetary boundaries; **(5)** • The main capital allocations in the Final Budget are shown net of receipts. A reconciliation is presented in an Annex; • The Estimates are voted net of 'accruing resources' (i.e. receipts or income that is allowed to be offset against expenditure) rather than gross; **(6)** • Extra-budgetary funds (i.e. consolidated fund standing services) are

		covered by separate statutory provisions; • There is no contingency fund. The previous CFP previously recommended that DFP sets out its position on a contingency fund[8] **(7)**
Unity	The budget presents, and the legislature approves, all receipts and payments in the same annual budget law. For expenditures, there is no "dual" budget system that splits current and development (or capital) transactions (this is best implemented if there is also unity of budget administration—one central budget authority). For revenues, there is an option between (i) approving all new revenue measures in the annual budget law or (ii) approving revenue measures only in laws other than the annual appropriations laws (the principle of exclusivity, which may be included in the BSL).	• Capital expenditure is currently <u>not separately voted</u>; **(1)** • Some revenue measures are voted separately (i.e. the rates legislation) and others are in the process of development by the Executive's Budget Review Group. It is not known how any additional revenue measures will be incorporated at this stage – it seems likely therefore that additional 'finance' legislation or other vehicle may be needed.
Common Pooling (or fungibility) of revenues	All resources are channelled into one common fund.	• There is one main fund – the Consolidated Fund – but also the National Insurance Fund which provides funds for various welfare payments. **(8)**
Specificity	Revenues and expenditures are approved with some detail in the budget estimates. Authorized spending is intended for particular purposes (inputs or programs/outputs).	• The Estimates are presented under Requests for Resources (RfRs) – departments present only one or two RfRs which are then sub-divided; • There is <u>no indication</u> of the specific programmes for which funds are voted nor of the outputs/outcomes they are intended to support. **(9)**
Balance	Budget payments are balanced by receipts (accounting balance, cash basis). Budget expenses are balanced by budget revenues and financing (accrual basis). "Balance" is well defined and may be subject to legal limitations.	• Departmental income has to balance the amount approved by the Assembly – any receipts additional to the accruing resources limit are treated as Consolidated Fund Extra Receipts (CFERs) and must be returned to the centre; • Departments can only spend the resources approved. If they exceed their limits, an 'excess vote' is required.
Accountability	The executive must account to the legislature for how it has met its responsibilities at least twice a year. An independent external audit body reports at least annually to the legislature on budget execution and annual government accounts. Within the executive, the accountability of budget managers is clearly defined.	• The NI Executive has reported on progress in its Programme for Government Delivery Report – this has not been at least twice per year; **(9)** • The Comptroller and Auditor General reports annually to the Assembly on budget execution and accounts.
Transparency	The roles of public bodies are clear. Timely and regular financial and	• DFP has stated that some non-departmental public bodies (NDPBs)

[8] <u>http://archive.niassembly.gov.uk/finance/2007mandate/reports/Report_66_09_10R.html#3</u> (see paragraph 87)

	nonfinancial information on the budget is publicly available. The terms used in the BSL are clearly defined.	are not required to publish their accounts by a specified date; **(10)** • Non-financial information – such as the delivery of outputs/outcomes for which funding is provided is not readily available. **(9)**
Stability	Short-term policy stability: anchoring commitments to achieve targets for revenues, total expenditures, fiscal balance or public debt, specified in the context of a regularly updated medium-term budget framework. Medium-term fiscal sustainability is also another important aspect of stability.	• The NI Executive does not produce a medium-term budget framework (MTBF) Note: the nature of devolved funding reduces the need for, or value of, an MTBF; • An assessment of medium-term fiscal sustainability is not published by the NI Executive in any obvious way (in terms of revenue-raising decisions such as the level of the regional rate, deferral of water charges etc.). **(11)**
Performance	The expected and recent past results (outputs and/or outcomes) of budget programs are reported in the budget document.	• There is no clear linkage between budgeted expenditure lines and intended outcomes or report on impact of previous expenditure. **(9)**

Box 1: possible areas for change suggested by the good practice principles

(1) Formal Assembly approval should be expanded to cover all expenditure and the separate resource and capital control totals;

(2) The Executive should report formally on budget execution – i.e. spending against budget plan, and progress against targets – during implementation. The Assembly could expect to vote approval of in-year monitoring round reallocations at the time, not just receive a statement and then vote retrospectively in the Spring Supplementary Estimates;

(3) The Executive should consider requesting that the Budget Exchange system is made statutory. This would provide an opportunity for challenge to changes in rules that was not present in the previous End-Year Flexibility scheme – EYF was ended by unilateral UK Government announcement in the 2010 Spending Review;

(4) The revised financial process should contain a legal requirement for budget approval prior to the start of the fiscal year to which the plans relate (y-1) rather than part-way through the fiscal year;

(5) The *Comprehensiveness* principle suggests widening the accounting boundaries to clarify the 'universe'. However, there are likely to be practical considerations such as the dates for closing accounts, resourcing accounts and audit functions, investment in accounting systems and variations in financial year end;

(6) *Comprehensiveness* also suggests gross rather than net approvals. The pros and cons of gross versus net need to be carefully considered. There are balancing factors such as incentives for departments to maximise revenues (if they are to be allowed to retain additional receipts) against the ability of departments to mask inefficiencies in delivery by increasing fees and charges, for example;

(7) Finally, *Comprehensiveness* suggests consideration of the need for a 'contingency fund'.

(8) The *Common pooling* principle suggests that the National Insurance (NI) Fund should be merged with the Consolidated Fund. It is not clear what the benefits of this would be as the NI Fund provides funding for non-discretionary demand-led social security spend rather than discretionary programme spend;

(9) The *Transparency* and *Specifity* principles suggest that whilst the Executive reports regularly on Programme for Government delivery and in-year budget reallocations there should be linkage between those reports. Monitoring rounds do not link funding pressures to PfG commitments. Reallocations are made without transparent linkage to PfG objectives and priorities. The *Performance* principle suggests that greater focus is needed on results in relation to expenditure lines so it is possible to see where expenditure is not matched by better outcomes (enabling the Assembly to make decisions about increasing resources to or cutting ineffective programmes;

(10) Departmental accounts are closed by end-June with NDPB accounts coming by autumn. If, as has been suggested, the accounting boundaries are widened and departmental consolidated accounts produced, NDPBs' accounts will have to be closed first. It is uncertain if such an approach would lead to greater transparency as some departments' own financial performance may be lost to scrutiny as the 'core' may become immaterial in relation to the 'periphery.'

(11) Whilst the revenue assessments suggested by the *Stability* principle are perhaps not currently significant (due to block grant funding) it is quite possible that - with the potential devolution of corporation tax (and possibly other revenues such as Air Passenger Duty) – it will become more important for the executive to assess and report on the stability of projected revenue. The principle also implies that the Executive should report on the stability of rates revenue.

4. Six key areas of budgeting to be specified in law

The guidance published by experts at the IMF builds upon the guiding principles by identifying six key areas of budgeting that "in general need to be specified in law rather than in subsidiary regulations."[9] These are:

- Submission of annual budgets to the legislature;
- Documents to accompany the annual budget;
- Budget adoption by the legislature;
- Budget execution;
- Government accounting and audit; and,
- External audit.

The guidance provides detail on a number of elements related to each of these six areas. Tables 2 to 7 below present an analysis of current practice in Northern Ireland against each area.

The guidance is primarily addressed at *national* governments' laws and procedures, which vary significantly across the world. It states:

> *Given the diversity of practices regarding the role that the law plays in providing a framework for the budget system, a "model law" is not proposed. Rather, each country's specific institutional, legal, and cultural features need to be considered prior to drafting amendments to an existing BSL or preparing a new BSL to cover specific aspects of budget processes.*[10]

This means in some instances that parts of the guidance may not be wholly appropriate and/or practicable for the context of a devolved institution within a wider nation state. Where this appears to be the case it is noted in the tables.

A traffic light colouring system has been applied to indicate where it has been assessed that the current Northern Ireland practice does (green) or does not (red) conform with the guidance. Amber is used to identify where it is assessed that there is partial or questionable compliance. This may indicate areas on which further evidence is required.

Where it is assessed that the guidance is not applicable in the Northern Ireland context, no colour is used.

It is intended that the analysis should serve as a useful platform for discussion rather than providing definitive conclusions on the issues.

[9] IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 10)

[10] IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 2)

Table 2: Submission of annual budget or appropriation law(s) to the legislature

Area of budgeting	Description	Comments on current practice
Fiscal Rules	A fiscal rule is a numerical limit on budget aggregates (revenues, expenditures, debt, and budget balance) that constrains the budget-setting powers of both the executive and the legislature. Fiscal rules, which are usually in place for several years, serve at least four goals: fiscal sustainability, economic stabilization, containment or reduction of government size, and support of intergenerational equity. In recent years, fiscal rules are being adopted especially to achieve debt sustainability. Annual budgets therefore need to be prepared subject to any fiscal rules.	• Macro-fiscal policy is not devolved to Northern Ireland: debt, budget balance and most revenues are managed by the UK Government; • Devolution of corporation tax – if it comes with associated borrowing powers – may require establishment of fiscal rules.
Budget submission – timing	If not included in the constitution, the BSL should specify the date by which the executive must submit the draft annual budget to the legislature. This is typically two to four months prior to the beginning of the new fiscal year. In countries with bicameral legislatures, more time should be allowed for discussing the draft budget, especially if both chambers have the authority to amend the draft budget law.	• s.64 of the Northern Ireland Act 1998 requires the Minister of Finance and Personnel to lay a draft budget before the Assembly before the beginning of each financial year(but *not* two to four months before); • the Assembly may agree the budget with or without amendment; • paragraph 20 of Strand One of the Good Friday/Belfast Agreement provides that the draft budget is subject to agreement after scrutiny by the Assembly's committees.
Are appropriations legally binding upper limits?	The BSL should specify whether individual appropriations are legally binding upper limits for expenditure. Some government spending is mandated by other laws or by legally binding contracts (e.g., transfers to households such as pensions and unemployment benefits, debt servicing, court-ordered payments) irrespective of the amount provided in the budget projections. In such cases, the spending included in annual appropriation(s) act(s) is usually not an upper limit. For much expenditure, however, the annual appropriations are legally binding upper limits.	• Appropriations (currently via approval of the Estimates) are for an upper limit for expenditure; • If the upper limit is breached, an excess vote must be passed by the Assembly; • Capital spending is included in the Estimates but not the resource totals approved in the Budget Bill is not therefore directly subject to Assembly control and an upper limit. Rather the limit is imposed administratively through budget control totals managed by DFP.
Classification and type of appropriations	The BSL should specify the broad classification of expenditures to be used in annual appropriation act(s). Compliance-oriented budget systems include perhaps thousands of budget line items, each of which is approved by the legislature. The BSL in some countries has re-specified appropriations—usually as broad-based "programs" or "outputs." In such systems, the	• Appropriations are voted under broad *Requests for Resources (RfRs)*; • Appropriations are not linked to outputs or specific programmes.

	executive's regulations specify the degree to which expenditures need to be disaggregated for the purposes of expenditure control. Detailed classification systems for use in budget execution and statistical reporting, such as [*Government Finance Statistics*]-compatible functional and economic classifications, can be specified by a government decree.	
Gross versus net appropriations	Consistent with the principle of comprehensiveness, expenditures should not be offset against revenues. Also, some countries' BSL allow for the earmarking of revenues for specific purposes (e.g., excise taxes on petroleum products, to be spent on road maintenance). Other countries, in an effort to encourage government ministries/agencies to mimic private sector entities, have adopted legal provisions that allow budget entities to raise and retain revenues. In such cases, the legislature should approve the projected agency revenues and provide guidelines for setting fees or charges that generate such revenues. Any spending that takes place when projected agency revenues are exceeded should require the approval of the legislature. Such provisions in the BSL are essential to prevent illegal ministry/agency spending from their "own" revenues.	• The Estimates are voted net of 'accruing resources' (i.e. receipts or income that is allowed to be offset against expenditure) rather than gross; • Budgets are set on a net basis (i.e. net of income which in effect provides additional spending authority). Departments must, however, have the Assembly's authority to treat income as an accruing resource and to use it for related spending under an Estimate.
Accounting basis of annual appropriations	Traditionally, all expenditures were cash-based and limited to only 12 months duration. Besides specifying that individual expenditures approved by the legislature are cash-based upper limits, the BSL may require that multiannual expenditure commitments (especially for investment spending) be approved in the context of the legislature's adoption of the annual budget. Alternatively, the BSL may be a vehicle for introducing an accrual-based government accounting system (i.e., one based on economic transfers rather than cash payments), details of which are provided in regulation.	• The Estimates are presented on a resource basis – approval is required for both resource consumption and cash spend; • Accounts are prepared on an accrual-based system under s.9 of Government Resources and Accounts Act (NI) 2001.
Carryover of budget authority	Carryover of budget authority. To allow end-year spending flexibility, the BSL of countries with good expenditure control mechanisms may specify that investment spending authority can be carried over into the next fiscal year. Carryover of certain current expenditures may also be allowed in such countries. The BSL should be specific on the types of expenditures and limits on carryover.	• The amounts in the Estimates and authorised by the Budget Act cannot be carried forward into future years (Managing Public Money 5.2.3) • Under End-Year Flexibility (EYF), the Executive could carry forward underspends into future years, with draw down requiring Treasury approval; • EYF now replaced with Budget Exchange which allows carry forward subject to a 'cap'. The scheme is non-statutory.
Appropriations for contingencies	The BSL could specify that the annual appropriation law contain a line item for contingencies in order to meet unforeseen and urgent spending needs (e.g.,	• The Assembly does not approve appropriations for contingencies in advance;

	for emergencies or unexpected large increases in obligations). The BSL should limit the unallocated spending to a small percentage of total expenditure (usually not in excess of 3 per cent) and place the spending under the authority of the Ministry of Finance. Regulations would specify the detailed procedures, eligibility, and restrictions on the spending of unallocated appropriations. The BSL should require contingency spending to be regularly reported to the legislature.	• Recent examples of expenditure items that *could* have been met through a contingency fund are pandemic flu and equal pay settlements; • In the absence of a specific fund for contingencies DFP may authorise (in exceptional circumstances) money to be advanced to departments from the Consolidated Fund. This is limited under the Financial Provisions (NI) Order 1998 to 2% of total authorised expenditure for the preceding year.

Table 3: Documents to accompany the annual draft budget law

Area of budgeting	Description	Comments on current practice
Medium-term macroeconomic and fiscal projections, the underlying assumptions and other information	The BSL should specify the various documents that the executive should submit to the legislature when it submits its draft annual budget (see Appendix 2). It is good practice to require the legislature to review and endorse an annually-updated multiyear budget framework, which should cover all institutional units comprising "general government," as defined in [*Government Finance Statistics*].[11] The BSL could also include a requirement for the legislature to formally approve the government's strategy for public debt.	• There is no legal requirement for the Finance Minister to lay any documents to accompany the Estimates or the draft Budget; • An analysis or assessment of the underlying assumptions relating to revenue projections may be especially important in the context of devolved corporation tax; • Comparative information for previous allocations is not included in the draft Budget, nor is information on projected versus actual revenue from regional rates presented; • Note: strategy for public debt is not a devolved responsibility.
Information on extra-budgetary funds	Such funds should be limited in number and purpose. If there are strong grounds for creating special funds for particular purposes (e.g., for social security), a special law may be adopted. Some countries restrict the creation and financial management of extra-budgetary funds. For example, Finland's 1999 constitution includes a very strong provision: no extra-budgetary funds can be created without a supermajority in parliament and then only if this is required to carry out an essential duty of the state. In countries with extra-budgetary funds that are not included in annual appropriations, the BSL should specify that the fiscal aggregates include the projected revenues and expenditures of all off-budget activities and that separate reports on specific funds be included in documents accompanying the annual budget.	• The National Insurance Fund (which finances social security benefits) is extra-budgetary; • Off-budget expenditure includes judges salaries; pensions for MPs from the old Northern Ireland Parliament; maintenance of the Thiepval War Memorial, and; costs of Boundary Commissions; • The budget document does not report on such items, nor of spending under Annually Managed Expenditure.
Information on objectives for performance	Information on objectives for performance. Countries that have adopted a performance - or results - oriented budget system usually require in their BSL that forward-looking annual performance reports be prepared by each major program and/or for each ministry.	• Linkage between budget allocations and Programme for Government (PfG) objectives and intended outcomes is absent; • Budget 2011-15 was approved in the absence of a PfG for the same period.

[11] 'Government Finance Statistics' refers to the IMF's *Government Finance Statistics Manual 2001* which is a statistical reporting framework aimed at helping national authorities to strengthen their capacity to formulate fiscal policy and monitor fiscal developments. See http://www.imf.org/external/pubs/ft/gfs/manual/aboutgfs.htm for more information.

Table 4: Adoption of the budget by the legislature, including amendments and procedures

Area of budgeting	Description	Comments on current practice
Approving fiscal rules	Fiscal rules have been included in fiscal responsibility laws (FRLs) in a number of countries. Inclusion of fiscal rules into law makes them more difficult to reverse. To be effective, a FRL should cover all relevant budget and quasi-fiscal operations of the public sector and comprehensively include procedural and transparency requirements. Brazil's FRL provides an example of the successful embedding of fiscal rules in law, in part because the FRL includes strong sanctions for noncompliance. However, there are also examples of unsuccessful embedding of fiscal rules in law. Although in some countries it may be important for the legislature to formally approve fiscal rules by adopting FRL-type legislation, it is more important to ensure that fiscal rules are accompanied by political commitment and mechanisms for accountability, monitoring, and enforcement. Without the legislature's commitment to fiscal discipline, fiscal rules could end up undermining policy credibility.	• Macro-fiscal policy is not devolved to Northern Ireland: debt, budget balance and most revenues are managed by the UK Government; • Devolution of corporation tax – if it comes with associated borrowing powers – may require establishment of fiscal rules.
A two-part budget approval process	Some countries require the government to present its [Medium Term Budget Framework] and annual budget aggregates to the legislature for a pre-budget debate, e.g., around midyear of the year before the new budget year. Other countries require the annual budget aggregates—revenues, financing, total expenditure; and debt repayments—to be approved, prior to the second parliamentary round of approving the detailed expenditure estimates. Such two-part budget approval processes have the merit of focusing the legislature first on the overall fiscal strategy and main aggregates, prior to approving detailed expenditures. A BSL can incorporate such a procedure, especially in countries where "top-down" budgeting is considered to be important for achieving fiscal consolidation.	• Budget approval is in two stages; • Stage 1 is debate/scrutiny of draft budget and approval; • Stage 2 is approval of Estimates which gives departments authority to spend (appropriation); • DFP Review of Financial Process envisages change to this process ('Estimates as Final Budget') – note recommendation 2 of NIAR 62/11 re strategic phase preceding introduction of draft budget.
Limitations on the legislature's powers to change the executive's draft budget	One of the legislature's potentially most important powers is its ability to alter the size and composition of the budget proposed by the executive. There are three main options for the BSL: unlimited amendment powers, limited powers, or negligible powers (e.g., "any change proposed by the legislature must be approved by the executive"). For medium-term fiscal stability, it is desirable to limit the legislature's powers. Several countries allow the legislature to approve additional expenditures provided additional revenues are raised so that the fiscal balance is left unaltered. Others prevent the legislature from increasing total expenditure, but allow changes in the composition of expenditure	• s.63 of NI Act 1998 provides that the Assembly may *only* pass a financial vote if it is brought by the Minister of Finance and Personnel; • but s.64 provides that the Assembly may agree the budget with or without modification; • In theory, NIA could reject a budget bill. In effect this would be a vote of no confidence in the Executive. • Modifications are allowed but HOC *Notes on Clauses* for NI Bill 1998 states that modification would 'in practice relate to the

	categories. A few countries do not allow any changes at all by the legislature, except if they affect the government's [Medium Term Budget Framework] in only a minor way […]	allocation of money between departments. The overall total available to the NIA will have been pre-determined by HMT and cannot be increased without their agreement'; • Proposed 'budget strategy phase' could allow for debate about composition of budget between departmental allocations.
Limits on the legislature's powers to revise revenue projections upwards in order to accommodate more expenditure	Such a legal requirement is particularly important in countries where there is strong separation of powers between the legislature and the executive (e.g., presidential systems in Latin America). It is also appropriate, when required, to include in the BSL controls over the creation and maintenance of earmarks and of tax expenditures. In general, earmarking of revenues to specific expenditures should be avoided, as it contravenes the common pooling principle. Sunset rules for tax expenditures could be introduced in law (e.g., they should expire after 5 or 10 years), and limits on total tax expenditures (e.g., as a percentage of total annual expenditures) could be established.	• Revenue projections are not formally debated; • In theory could NIA reject one or more of the Executive's proposals - for example not to introduce water charges and impose them through amendment. Such an outcome seems unlikely in practice; • Generally, specific revenues are not earmarked and there is a common pool; • Rates legislation is passed separately – if it is rejected, could leave the Executive with reduced resources
Budgetary procedures within the legislature	In many countries, these are mainly specified in the internal regulations of the legislature. However, some countries' constitutions or laws specify special rules for the adoption of the annual budget law (e.g., draft budget law discussions have a higher priority than those for non-budget laws). The respective budgetary responsibilities of each chamber are usually specified in a law. Regulations of the legislature should specify the responsibilities and authority of budget committees and sectoral committees serving the legislature.	• There is no statutory requirement except NI Act 1998 re adoption of budget laws; • To introduce proposed budget strategy phase this may need amendment; • Standing orders do not specify co-ordinating role for CFP in responding to budget – this is convention.
Date by which the budget should be adopted by the legislature	To allow immediate implementation of the annual budget, the BSL should require adoption of the annual budget no later than the final day of the year immediately preceding the new fiscal year.	• s.64 of NI Act 1998 only requires that a draft budget is **laid** prior to new fiscal year, not that it is agreed; • appropriation occurs part-way through fiscal year (usually in June).
Reversionary budget	The BSL should also specify the rule to apply in the event that the budget is not adopted by the due date. Typically, the BSL specifies that the budget in the new fiscal year should be executed monthly at a rate of 1/12th of the budget appropriations of the previous fiscal year (i.e., excluding any proposed new budget policies, activities, or projects). In order to force the legislature to adopt the draft budget law, some countries' laws limit the duration of the 1/12 rule (e.g., to four months after the beginning of the new fiscal year).	• s.7 of Government Resources and Accounts Act (NI) 2001 provides that an authorised officer of DFP can authorise up to 75% of previous year's allocation in absence of Budget Act (Vote on Account) by 3 days into the new financial year; • if no appropriation passed by July, up to 95% may be so authorised
Rules on the adoption of the budget by the	If the legislature has powers to reject the budget, the BSL may need to specify rules to ensure its adoption and prevent impasses between the legislature and	• The Assembly may reject or amend the budget;

legislature	executive. In parliamentary systems of government, parliament's only "weapon" is to reject the entire budget by adopting a vote of no confidence in the government (i.e., forcing the government out of power). In such cases, it is important to have a reversionary budget rule in law. In presidential systems, the legislature may reject the president's proposed budget. Alternatively, the president may veto the legislature's budget as adopted. Again, it is important to have a formal agreement—or better, an article in law—on a reversionary budget, to ensure that the government continues to function while political consensus on the new annual budget is being reached.	• There is no law or rules in standing orders governing **how** amendment may be achieved or how adoption may be enforced
Supplementary budgets	A good budgetary practice is to require a formal midterm review of budget execution by the legislature, which may, if necessary, adopt a revised annual budget law to accommodate necessary changes. Such a law may authorize: (1) higher expenditures, should revenues be higher than projected, or should there be large unexpected expenditures that cannot be financed by cuts in spending elsewhere, or (2) lower expenditures, especially when revenues are less than projected and the government does not wish to deviate from pre-announced deficit/surplus targets. The BSL should, however, allow a supplementary budget to be adopted any time it is required. One simple way of incorporating this requirement into the BSL is to state that the principles and procedures incorporated in the BSL apply to both the annual budget and to supplementary budgets.	• There is no provision requiring mid-term review of budget execution; • In effect 'strategic stocktake' and 'review of spending plans' were mid-term reviews, but these occurred only because introduced by the Executive; • May be more important if corporation tax is devolved;
Independent budget offices	Such offices, serving the needs of the legislature, have been established in several countries, including Canada, United States, and Mexico. The BSL, or a "budget office" law, can specify the roles, responsibilities, and staffing of the legislature's budget office. To ensure the independence of its advice, the office should be nonpartisan, with no political appointees.	Not applicable – there is no proposal for an independent budget office

Table 5: Budget execution and control

Note the following caveat from the guidance which applies to this section:

Many of the procedures for executing the annual budget, including allotment (to lower-level budget entities), apportionment (dividing expenditures of the annual budget into quarterly ceilings), mechanisms of expenditure control, internal control, and internal audit, ***are best specified in government/ministerial regulations****. However, the BSL may be used in the following areas:*[12]

Area of budgeting	Description	Comments on current practice
Flexibility to the executive for implementing the budget	The BSL may specify that the expenditure for a particular line item may be exceeded provided there is an offsetting downward revision of another line item within the same category of expenditure (virement). The BSL should specify the minister of finance's virement powers (e.g., the percentage by which particular expenditures can be exceeded without submitting a supplementary budget to the legislature).	• Virement is achieved through monitoring rounds; • Below *de minimis* thresholds departments may switch between lines; • Over thresholds need DFP/Executive approval; • There is only a retrospective Assembly role for approving these rules or expenditure changes – the Minister simply makes a statement on the outcome of monitoring without a vote at the time.
Authority for the minister of finance to cut appropriations	The BSL should specify whether the minister has zero, limited, or unlimited authority to cut budget appropriations and the conditions under which this is permitted (e.g., when there are revenue shortfalls). Although country practice varies, from the point of view of macro-fiscal stability and the prevention of payment arrears, law should provide the minister of finance with the power to cut expenditures (i.e., up to a certain percentage), before being obliged to return to the legislature for additional spending authority in the form of a supplementary budget.	• 2.3.v of The Northern Ireland Executive Ministerial Code provides that the budget must be agreed by the Executive so the Minister of Finance and Personnel does not have authority to cut appropriations.
The minister of finance's authority over government banking and cash management	For effective financial control, the BSL should provide the minister of finance with extensive powers over the management (especially opening and closing) of government bank accounts. The BSL should provide the minister with strong powers to minimize idle balances in government accounts and invest appropriately any short-term surpluses, the aim being to minimize borrowing costs and risks to government.	• s.25 of Government Resources and Accounts Act (NI) 2001 provides DFP with powers over the management of bank accounts.

[12] IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 15)

Consolidation of all revenues and establishment of a treasury single account (TSA)	The BSL should incorporate the common-pooling principle: all revenues should be paid into the same common fund. Exceptions to this principle should be specified in the law. The BSL should specify that a TSA be held at the central bank. The TSA may have subaccounts.	• s.1 of Government Resources and Accounts Act (NI) 2001 requires that all receipts are payable into the NI Consolidated Fund and that the account is to be held at a bank determined by DFP.
Public procurement procedures	Many countries have adopted a public procurement law that specifies procurement principles and practices including, inter alia, the degree to which procurement is decentralized to spending ministries and any special administrative entities established to oversee the entire system of public procurement. Details on procurement are specified in regulation(s).	• Public procurement is governed by procurement regulations and public procurement policy which specifies the level of decentralisation of practices.

Table 6: Government accounts and reporting to the legislature

Area of budgeting	Description	Comments on current practice
Accounting systems and procedures	A separate accounting law is not usually needed. Accounting is largely a technical issue, for which details should be provided in standards and/or regulations issued by the MoF or an independent accounting standards board. However, the BSL should specify the basis of accounting to be used by budget entities and the accounting standard setting body. Some countries (e.g., France's Organic Budget Law) limit the former to simple statements that "government accounting standards are only different from enterprise accounting standards to the extent that government budget and accounting processes are unique." Law may require that accounting regulations be reviewed by qualified public and private sector experts.	• s.9 and 14 of Government Resources and Accounts Act (NI) 2001 provides that NI departments must prepare accounts on a resource basis in accordance with directions issued by DFP; • s.20 of Government Resources and Accounts Act (NI) provides that DFP must take account of recommendations of an advisory board established by HM Treasury when issuing directions regarding the preparation of accounts.
Ex post budget execution reports and financial accounts	The BSL should specify the report and accounts that the executive must prepare for the legislature. Reporting is particularly important to satisfy the principles of transparency and accountability. For countries that have adopted a results-oriented budget system, annual performance reports should also be required. The main reports to be specified in the BSL are shown in Appendix 3. Some countries have incorporated these requirements in [Fiscal Responsibility Laws], although it is probably best if these obligations are included in the main BSL.	• There is no legal obligation on the Minister of Finance and Personnel to produce certain documents in relation to the budget; • Statements made by the Minister of Finance and Personnel may satisfy part of this reporting requirement, but these are made by convention rather than legal obligation and the Assembly is not asked to vote to approve monitoring round reallocations at the time.
Other budget information and periodic reports	Provision of such information considered "best practice" could be made a legal requirement (see Appendix 4). Judicious choices need to be made before imposing legal requirements for reports to the legislature, which should not be overloaded with information. A distinction should be made between what the legislature needs and the information needed for internal management purposes, with the latter being governed by regulation, not law.	• There is no legal obligation on the Minister of Finance and Personnel to produce certain documents in relation to the budget; • There is a requirement in the Ministerial Code (1.5iii) for ministers to comply with reasonable requests for information;

Table 7: External audit

Area of budgeting	Description	Comments on current practice
The main powers of the supreme audit institution (SAI) should be established in the constitution	The Lima Declaration of INTOSAI[13] establishes international standards, including requiring the constitution to establish the independence of the SAI and to prepare audit reports for the legislature.	• The independence of the Comptroller and Auditor General is established in s.65(3) of the Northern Ireland Act 1998; • s.60 of the Northern Ireland Act 1998 sets out the authority of the C&AG to carry out financial and value-for-money audits of NI departments and other public bodies.
A separate external audit law should elaborate on the powers, roles and responsibilities of the SAI.	The appointment of the auditor general or the collegial body and staff of the SAI (which should be independent of the civil service), and the type of audit—compliance and/or performance (value-for-money) to be performed.	• The staffing of the NIAO is provided for in the Audit (Northern Ireland) Order 1987; • The powers of the C&AG to access information etc are contained in the Audit and Accountability (Northern Ireland) Order 2003

[13]Information on the declaration and The International Organization of Supreme Audit Institutions (INTOSAI) can be found at: http://www.intosai.org/en/portal/documents/intosai/general/limaundmexikodeclaration/lima_declaration/index.php?article_pos=1 (accessed 28 July 2011)

4.1. Commentary on Tables 2 to 7

Based on those areas highlighted above as red, the following observations may be made:

- The statutory requirement for the Minister of Finance to lay the a draft budget should be brought forward to earlier in the year to allow for the Assembly's agreement prior to the start of the fiscal year;
- Further consideration of presenting fiscal data on a gross or net basis is required (RaISe briefing note forthcoming);
- Placing the Budget Exchange scheme on a statutory footing would improve alignment with the principles;
- The documentation that accompanies the budget should include (and this could be required by statute):
  - Assessment of assumptions in relation to revenue projections;
  - Off-budget expenditures should be clearly reported; and,
  - Linkage between allocations and performance objectives should be included.
- A statutory requirement for mid-term review of the budget should be introduced; and,
- The Assembly should be asked to approve reallocations resulting from monitoring rounds.

Appendix 1: Sound Principles for a Budget System Law (BSL)[14]

Overarching Principle

1. **Authoritativeness**: Decision-making authority is specified clearly in the BSL. The executive prepares a draft annual budget law and supporting documents such as a fiscal policy strategy paper and a medium-term macro-fiscal framework; the legislature approves the annual budget, possibly after amendments; no expenditure can be made without approval of the legislature; the executive implements the annual budget and provides reports on implementation. It also has the authority to close and open public bank accounts. The authority to modify the approved budget law is specified in the BSL.

Classical Principles

2. **Annual basis**: Budget authority is for a 12-month period. Exceptions are specified in the BSL, including multiyear appropriations and end-year carryovers. The annual budget law is enacted prior to the year to which it refers. All transactions are estimated for their one year effect.

3. **Comprehensiveness**: The "universe" (e.g., central government) is specified clearly. All revenues and expenditures are included in the budget on a gross basis. Expenditures are not offset by revenues: the BSL specifies any exceptions. Extra-budgetary funds are minimal, being established by law. Contingency funds are included in the budget law. Tax expenditures and quasi-fiscal activities are reported.

4. **Unity**: The budget presents, and the legislature approves, all receipts and payments in the same annual budget law. For expenditures, there is no "dual" budget system that splits current and development (or capital) transactions (this is best implemented if there is also unity of budget administration—one central budget authority). For revenues, there is an option between (i) approving all new revenue measures in the annual budget law or (ii) approving revenue measures only in laws other than the annual appropriations laws (the principle of exclusivity, which may be included in the BSL).

5. **Common pooling (or fungibility) of revenues**: All resources are channelled into one common fund.

6. **Specificity**: Revenues and expenditures are approved with some detail in the budget estimates. Authorized spending is intended for particular purposes (inputs or programs/outputs).

7. **Balance**: Budget payments are balanced by receipts (accounting balance, cash basis). Budget expenses are balanced by budget revenues and financing (accrual basis). "Balance" is well defined and may be subject to legal limitations.

[14] IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see pages 8 and 9)

Modern Principles

8. Accountability: The executive must account to the legislature for how it has met its responsibilities at least twice a year. An independent external audit body reports at least annually to the legislature on budget execution and annual government accounts. Within the executive, the accountability of budget managers is clearly defined.

9. Transparency: The roles of public bodies are clear. Timely and regular financial and nonfinancial information on the budget is publicly available. The terms used in the BSL are clearly defined.

10. Stability: Short-term policy stability: anchoring commitments to achieve targets for revenues, total expenditures, fiscal balance or public debt, specified in the context of a regularly updated medium-term budget framework. Medium-term fiscal sustainability is also another important aspect of stability.

11. Performance: The expected and recent past results (outputs and/or outcomes) of budget programs are reported in the budget document.

Appendix 2: Documents to Accompany the Draft Annual Budget Law or Appropriations Act

- A medium-term fiscal strategy and objectives, the medium-term budget framework (MTBF) showing expected revenue, expenditure, budget balance, and public debt during at least the two years beyond the next fiscal year;
- Identification and discussion of the economic assumptions and fiscal risks underlying the projections;
- A statement on fiscal risks. This may include (i) sensitivity of the fiscal and debt projections to changes in assumptions; (b) alternative macrofiscal scenarios; (iii) assessment of debt sustainability and debt-related risks; (iv) risks associated with quasi-fiscal activities, government guarantees and other contingent liabilities, State-owned enterprises, financial sector, subnational governments, extrabudgetary funds, and government assets (for more details, see Cebotari and others, 2009, and Everaert and others, 2009;
- Clear identification of new policies being introduced in the annual budget, with an estimate of their quantitative impact on the budget;
- Comparative information on actual revenue and expenditure during the previous two years and an updated forecast for the current year, with a commentary on each revenue and expenditure program. Reconciliation with forecasts contained in earlier budget reports for the same period, accompanied by explanations of all significant deviations; and
- Tax expenditures, contingent liabilities and quasi-fiscal activities should be discussed, especially when quantitatively important.

Source: IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 13)

Appendix 3: Ex-post budget reporting

Quarterly (or monthly) reports

- Monthly and year-to-date budget execution reports, to be released within four weeks after the end of each period. A brief commentary on revenues, expenditures, and balance should accompany the data.

Midyear report

- A comprehensive update on budget implementation, released within six weeks of the end of the midyear period. This should discuss the impact of changes in economic assumptions underlying the budget, any recent budget-related political decisions, and any other circumstances that may have a material effect on the budget. The report should include updated budget projections for the current fiscal year and the following two fiscal years.

Year-end accounts and annual report

- Annual accounts should show compliance with the budgeted levels of revenues and expenditures authorized by the legislature. The format of the accounts should be identical to that of the budget presentation. Any in-year adjustments to the original budget should be shown. Comparative information on revenues and expenditures of the preceding year should also be provided.
- The annual accounts should be audited by the external audit body and submitted to parliament within no more than 6–12 months after the fiscal year ends (more advanced countries can shorten the delay.)
- The year-end budget report should contain a comprehensive discussion of the overall budget outcome compared with ex ante targets for aggregates for revenues and broad expenditure categories. Spending ministries' reports on budget outcomes should be included.
- For countries with performance-oriented budget systems, the law should require that annual reports include non-financial performance information, including a comparison of performance targets and actual results achieved. The reports for year (-1) should be available in time for the legislature's consideration of the budget for year (+1).

Source: IMF (2010) 'Reforming Budget Systems Laws' available online at: http://www.imf.org/external/pubs/ft/tnm/2010/tnm1001.pdf (accessed 21 June 2011) (see page 16)

Appendix 4: OECD Best Practices for Budget Transparency

OECD Best Practices for Budget Transparency

Note from the Editors

The relationship between good governance and better economic and social outcomes is increasingly acknowledged. Transparency – openness about policy intentions, formulation and implementation – is a key element of good governance. The budget is the single most important policy document of governments, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is defined as the full disclosure of all relevant fiscal information in a timely and systematic manner.

OECD Member countries are at the forefront of budget transparency practices. At its 1999 annual meeting, the OECD Working Party of Senior Budget Officials asked the Secretariat to draw together a set of Best Practices in this area based on Member countries' experiences.

The Best Practices are in three parts. Part 1 lists the principal budget reports that governments should produce and their general content. Part 2 describes specific disclosures to be contained in the reports. This includes both financial and non-financial performance information. Part 3 highlights practices for ensuring the quality and integrity of the reports.

The Best Practices are designed as a reference tool for Member and non-member countries to use in order to increase the degree of budget transparency in their respective countries. The Best Practices are organised around specific reports for presentational reasons only. It is recognised that different countries will have different reporting regimes and may have different areas of emphasis for transparency. The Best Practices are based on different Member countries' experiences in each area. It should be stressed that the Best Practices are not meant to constitute a formal "standard" for budget transparency.

1. Budget reports

1.1. *The budget*

- The budget is the government's* key policy document. It should be comprehensive, encompassing all government revenue and expenditure, so that the necessary trade-offs between different policy options can be assessed.
- The government's draft budget should be submitted to Parliament far enough in advance to allow Parliament to review it properly. In no case should this be less than three months prior to the start of the fiscal year. The budget should be approved by Parliament prior to the start of the fiscal year.
- The budget, or related documents, should include a detailed commentary on each revenue and expenditure programme.
- Non-financial performance data, including performance targets, should be presented for expenditure programmes where practicable.
- The budget should include a medium-term perspective illustrating how revenue and expenditure will develop during, at least, the two years beyond the next fiscal year. Similarly, the current budget proposal should be reconciled with forecasts contained in earlier fiscal reports for the same period; all significant deviations should be explained.
- Comparative information on actual revenue and expenditure during the past year and an updated forecast for the current year should be provided for each programme. Similar comparative information should be shown for any non-financial performance data.
- If revenue and expenditures are authorised in permanent legislation, the amounts of such revenue and expenditures should nonetheless be shown in the budget for information purposes along with other revenue and expenditure.
- Expenditures should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately. This should be done regardless of whether particular incentive and control systems provide for the retention of some or all of the receipts by the collecting agency.

* The Best Practices define "government" in line with the System of National Accounts (SNA). This definition encompasses the non-commercial activities of government. Specifically, the activities of state-owned enterprises are excluded from this definition. Although the SNA definition focuses on general government, *i.e.* consolidating all levels of government, these Best Practices should be seen to apply to the national government.

- Expenditures should be classified by administrative unit (*e.g.* ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (below).
- The budget should include a discussion of tax expenditures in accordance with Best Practice 2.2 (below).
- The budget should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

1.2. *Pre-budget report*

- A pre-budget report serves to encourage debate on the budget aggregates and how they interact with the economy. As such, it also serves to create appropriate expectations for the budget itself. It should be released no later than one month prior to the introduction of the budget proposal.
- The report should state explicitly the government's long-term economic and fiscal policy objectives and the government's economic and fiscal policy intentions for the forthcoming budget and, at least, the following two fiscal years. It should highlight the total level of revenue, expenditure, deficit or surplus, and debt.
- The economic assumptions underlying the report should be made in accordance with Best Practice 2.1 (see below).

1.3. *Monthly reports*

- Monthly reports show progress in implementing the budget. They should be released within four weeks of the end of each month.
- They should contain the amount of revenue and expenditure in each month and year-to-date. A comparison should be made with the forecast amounts of monthly revenue and expenditure for the same period. Any in-year adjustments to the original forecast should be shown separately.
- A brief commentary should accompany the numerical data. If a significant divergence between actual and forecast amounts occurs, an explanation should be made.
- Expenditures should be classified by major administrative units (*e.g.*, ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.

- The reports, or related documents, should also contain information on the government's borrowing activity (see Best Practice 2.3 below).

1.4. *Mid-year report*

- The mid-year report provides a comprehensive update on the implementation of the budget, including an updated forecast of the budget outcome for the current fiscal year and, at least, the following two fiscal years. The report should be released within six weeks of the end of the mid-year period.
- The economic assumptions underlying the budget should be reviewed and the impact of any changes on the budget disclosed (see Best Practice 2.1 below).
- The mid-year should contain a comprehensive discussion of the government's financial assets and liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).
- The impact of any other government decisions, or other circumstances, that may have a material effect on the budget should be disclosed.

1.5. *Year-end report*

- The year-end report is the government's key accountability document. It should be audited by the Supreme Audit Institution, in accordance with Best Practice 3.3 (below) and be released within six months of the end of the fiscal year.
- The year-end report shows compliance with the level of revenue and expenditures authorised by Parliament in the budget. Any in-year adjustments to the original budget should be shown separately. The presentation format of the year-end report should mirror the presentation format of the budget.
- The year-end report, or related documents, should include non-financial performance information, including a comparison of performance targets and actual results achieved where practicable.
- Comparative information on the level of revenue and expenditure during the preceding year should also be provided. Similar comparative information should be shown for any non-financial performance data.
- Expenditure should be presented in gross terms. Ear-marked revenue and user charges should be clearly accounted for separately.

- Expenditure should be classified by administrative unit (*e.g.* ministry, agency). Supplementary information classifying expenditure by economic and functional categories should also be presented.
- The year-end report should contain a comprehensive discussion of the government's financial assets and financial liabilities, non-financial assets, employee pension obligations and contingent liabilities in accordance with Best Practices 2.3-2.6 (below).

1.6. *Pre-election report*

- A pre-election report serves to illuminate the general state of government finances immediately before an election. This fosters a more informed electorate and serves to stimulate public debate.
- The feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than two weeks prior to elections.
- The report should contain the same information as the mid-year report.
- Special care needs to be taken to assure the integrity of such reports, in accordance with Best Practice 3.2 (below).

1.7. *Long-term report*

- The long-term report assesses the long-term sustainability of current government policies. It should be released at least every five years, or when major changes are made in substantive revenue or expenditure programmes.
- The report should assess the budgetary implications of demographic change, such as population ageing and other potential developments over the long-term (10-40 years).
- All key assumptions underlying the projections contained in the report should be made explicit and a range of plausible scenarios presented.

2. Specific disclosures

2.1. *Economic assumptions*

- Deviations from the forecast of the key economic assumptions underlying the budget are the government's key fiscal risk.
- All key economic assumptions should be disclosed explicitly. This includes the forecast for GDP growth, the composition of GDP growth, the rate of employment and unemployment, the current account, inflation and interest rates (monetary policy).

- A sensitivity analysis should be made of what impact changes in the key economic assumptions would have on the budget.

2.2. *Tax expenditures*

- Tax expenditures are the estimated costs to the tax revenue of preferential treatment for specific activities.
- The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific functional areas should be incorporated into the discussion of general expenditures for those areas in order to inform budgetary choices.

2.3. *Financial liabilities and financial assets*

- All financial liabilities and financial assets should be disclosed in the budget, the mid-year report, and the year-end report. Monthly borrowing activity should be disclosed in the monthly reports, or related documents.
- Borrowings should be classified by the currency denomination of the debt, the maturity profile of the debt, whether the debt carries a fixed or variable rate of interest, and whether it is callable.
- Financial assets should be classified by major type, including cash, marketable securities, investments in enterprises and loans advanced to other entities. Investments in enterprises should be listed individually. Loans advanced to other entities should be listed by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. Financial assets should be valued at market value.
- Debt management instruments, such as forward contracts and swaps, should be disclosed.
- In the budget, a sensitivity analysis should be made showing what impact changes in interest rates and foreign exchange rates would have on financing costs.

2.4. *Non-financial assets*

- Non-financial assets, including real property and equipment, should be disclosed.
- Non-financial assets will be recognised under full accrual-based accounting and budgeting. This will require the valuation of such assets and the selec-

tion of appropriate depreciation schedules. The valuation and depreciation methods should be fully disclosed.

- Where full accrual basis is not adopted, a register of assets should be maintained and summary information from this register provided in the budget, the mid-year report and the year-end report.

2.5. *Employee pension obligations*

- Employee pension obligations should be disclosed in the budget, the mid-year report and the year-end report. Employee pension obligations are the difference between accrued benefits arising from past service and the contributions that the government has made towards those benefits.
- Key actuarial assumptions underlying the calculation of employee pension obligations should be disclosed. Any assets belonging to employee pension plans should be valued at market value.

2.6. *Contingent liabilities*

- Contingent liabilities are liabilities whose budgetary impact is dependent on future events which may or may not occur. Common examples include government loan guarantees, government insurance programmes, and legal daims against the government.
- All significant contingent liabilities should be disclosed in the budget, the mid-year report and the annual financial statements.
- Where feasible, the total amount of contingent liabilities should be disclosed and classified by major category reflecting their nature; historical information on defaults for each category should be disclosed where available. In cases where contingent liabilities cannot be quantified, they should be listed and described.

3. Integrity, control and accountability

3.1. *Accounting policies*

- A summary of relevant accounting policies should accompany all reports. These should describe the basis of accounting applied (*e.g.* cash, accrual) in preparing the reports and disclose any deviations from generally accepted accounting practices.
- The same accounting policies should be used for all fiscal reports.
- If a change in accounting policies is required, then the nature of the change and the reasons for the change should be fully disclosed. Information for

previous reporting periods should be adjusted, as practicable, to allow comparisons to be made between reporting periods.

3.2. *Systems and responsibility*

- A dynamic system of internal financial controls, including internal audit, should be in place to assure the integrity of information provided in the reports.
- Each report should contain a statement of responsibility by the finance minister and the senior official responsible for producing the report. The minister certifies that all government decisions with a fiscal impact have been included in the report. The senior official certifies that the Finance Ministry has used its best professional judgement in producing the report.

3.3. *Audit*

- The year-end report should be audited by the Supreme Audit Institution in accordance with generally accepted auditing practices.
- Audit reports prepared by the Supreme Audit Institution should be scrutinised by Parliament.

3.4. *Public and parliamentary scrutiny*

- Parliament should have the opportunity and the resources to effectively examine any fiscal report that it deems necessary.
- All fiscal reports referred to in these Best Practices should be made publicly available. This includes the availability of all reports free of charge on the Internet.
- The Finance Ministry should actively promote an understanding of the budget process by individual citizens and non-governmental organisations.