

## Y Pwyllgor Cyllid

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Lleoliad:

Ystafell Bwyllgora 2 – y Senedd

Dyddiad:

Dydd Iau, 26 Mehefin 2014

Amser:

10.30

Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales



I gael rhagor o wybodaeth, cysylltwch â:

**Bethan Davies**

Clerc y Pwyllgor

029 2089 8120

[PwyllgorCyllid@cymru.gov.uk](mailto:PwyllgorCyllid@cymru.gov.uk)

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### Agenda

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**1 Cyflwyniadau, ymddiheuriadau a dirprwyon (10:30)**

**2 Papurau i'w nodi (10:30)** (Tudalennau 1 – 2)

**3 Ymchwiliad i'r arfer gorau mewn prosesau cyllidebol: Sesiwn**

**dystiolaeth 5 (10:35–12:00)** (Tudalennau 3 – 45)

Y Sefydliad Siartredig Cyllid Cyhoeddus a Chyfrifyddiaeth (CIPFA)

FIN(4)-12-14 (papur 1)

Don Peebles - Pennaeth CIPFA yr Alban

**4 Cynnig o dan Reol Sefydlog 17.42 i benderfynu gwahardd y cyhoedd  
o'r cyfarfod ar gyfer y canlynol: (12:00)**

Eitemau 5 & 6

**5 Ymchwiliad i'r arfer gorau mewn prosesau cyllidebol: Trafod y**

**dystiolaeth a ddaeth i law (12:00–12:15)**

**6 Swyddfa Archwilio Cymru: Caffael archwilwyr allanol (12:15–12:30)**

(Tudalennau 46 – 49)

FIN(4)–12–14(papur 2)

Kevin Thomas – Cyfarwyddwr Gwasanaethau Corfforaethol, Swyddfa Archwilio Cymru

Laurie Davies – Rheolwr Gwasanaethau Busnes, Swyddfa Archwilio Cymru

**7 Bil Cymru: Memorandwm Cydsyniad Deddfwriaethol: Llythyr gan Y  
Gweinidog Cyllid (18 Mehefin 2014) (12:30) (Tudalen 50)**

FIN(4)–12–14(papur 3)

## Y Pwyllgor Cyllid

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Lleoliad: **Ystafell Bwyllgora 2 – y Senedd**

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Dyddiad: **Dydd Mercher, 18 Mehefin 2014**

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Amser: **11.00 – 12.12**

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Gellir gwyllo'r cyfarfod ar Senedd TV yn:

[http://www.senedd.tv/archiveplayer.jsf?v=en\\_300000\\_18\\_06\\_2014&t=0&l=en](http://www.senedd.tv/archiveplayer.jsf?v=en_300000_18_06_2014&t=0&l=en)

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### Cofnodion Cryno:

#### Aelodau'r Cynulliad:

Jocelyn Davies AC (Cadeirydd)  
Peter Black AC  
Christine Chapman AC  
Paul Davies AC  
Mike Hedges AC  
Alun Ffred Jones AC  
Ann Jones AC  
Julie Morgan AC

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#### Tystion:

David Gauke MP, Exchequer Secretary to the Treasury  
Ben Pearce, Head of Fiscal Devolution, HM

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#### Staff y Pwyllgor:

Bethan Davies (Clerc)  
Meriel Singleton (Ail Clerc)  
Claire Griffiths (Dirprwy Clerc)  
Richard Bettley (Ymchwilydd)  
Joanest Jackson (Cynghorydd Cyfreithiol)

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### TRAWSGRIFIAD

Gweld [trawsgrifiad o'r cyfarfod](#).

## **1 Bil Cymru: Memorandwm Cydsyniad Deddfwriaethol – Adroddiad drafft**

1.1 Trafododd yr Aelodau yr adroddiad drafft a chymeradwyd yr adroddiad yn amodol ar rai mân newidiadau.

## **2 Cyllideb Ddrafft Llywodraeth Cymru 2015–16: Dull o gynnal y gwaith craffu**

2.1 Ystyriodd yr Aelodau'r papur a chytunwyd ar y dull a awgrymwyd i graffu ar gyllideb ddrafft Llywodraeth Cymru 2015–16.

## **3 Cyflwyniadau, ymddiheuriadau a dirprwyon**

3.1 Croesawodd y Cadeirydd yr Aelodau i'r Pwyllgor. Ni chafwyd ymddiheuriadau.

## **4 Papurau i'w nodi**

4.1 Nodwyd y papurau.

4.1 Bil Cymru: Llythyr gan y Gweinidog Cyllid (3 Mehefin 2014)

4.2 Y Bil Tai (Cymru): Llythyr gan y Gweinidog Tai ac Adfywio (9 Mehefin 2014)

## **5 Bil Cymru: Goblygiadau ar gyfer prosesau'r gyllideb yn y dyfodol**

5.1 Clywodd y Pwyllgor dystiolaeth gan David Gauke AS, Ysgrifennydd y Trysorlys a Ben Pearce, Pennaeth Cyllid Datganoli, Trysorlys Ei Mawrhydi fel rhan o'u gwaith ar Fil Cymru a'u hymchwiliad i arfer orau mewn prosesau cyllidebol.

# **National Assembly for Wales Finance Committee: Inquiry into Best Practice Budget Processes**

**A Submission by:**

**The Chartered Institute of Public  
Finance and Accountancy**

**May 2014**

**CIPFA, the Chartered Institute of Public Finance and Accountancy**, is the professional body for people in public finance. CIPFA shows the way in public finance globally, standing up for sound public financial management and good governance around the world as the leading commentator on managing and accounting for public money.

Further information about CIPFA can be obtained at [www.cipfa.org](http://www.cipfa.org)

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## **1. INTRODUCTION – A WHOLE SYSTEMS APPROACH**

- 1.1 CIPFA welcomes the Wales Bill published on 20 March 2014, with the accompanying Command Paper,<sup>1</sup> and its intention to increase the accountability of the Welsh devolved institutions. However, some issues remain as the Bill still falls short of addressing all the areas of concern raised during pre-legislative scrutiny.<sup>2</sup>
- 1.2 It is good to see that the Bill has been amended to provide the National Assembly with the power to develop its own budgetary process, by amending Schedule 7 to the *Government of Wales Act 2006*. This means that the Assembly will be able to determine its own budget process, which should link taxation, spending and borrowing plans and allow for adequate scrutiny of how the Welsh Government proposes to raise and spend public money.
- 1.3 CIPFA welcomes the Committee's inquiry and the fact that it is exploring international best practice to inform the development of a Welsh budget process, as recommended by the Silk Commission.<sup>3</sup> It is also good to see that the Committee is exploring the potential for more outcomes-focused budget procedures.
- 1.4 Although we welcome the focus on the budget process and procedures in line with the powers proposed in the Wales Bill, CIPFA advocates a whole systems approach to public financial management.
- 1.5 In 2009, at the International Federation of Accountants (IFAC) G20 Summit, the World Bank called for a strengthening of the public finance profession in developing and emerging economies as a key step in achieving financial stability.<sup>4</sup> CIPFA developed a framework, the whole systems approach, to build on that thinking, based on practical experiences and tested methodologies.<sup>5</sup> Its purpose is to provide an analytical framework to support effective public financial management in all countries, enabling relevant public services for citizens.
- 1.6 Public financial management (PFM) drives the performance of the public sector through the effective and efficient use of public money. It provides leaders with information to raise finance, know if they are using resources effectively and make decisions.
- 1.7 The World Bank defines PFM in relation to its component parts: *...financial management refers to the budget, accounting, internal control, funds flow, financial reporting and auditing arrangements by which they receive funds, allocate them and record their use.*<sup>6</sup>
- 1.8 CIPFA defines PFM in relation to its contribution to achieving strategic and operational objectives as a key aspect of good governance, placing relevance and

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<sup>1</sup> [Wales Bill](#) and [Cm8838, Wales Bill: Financial Empowerment and Accountability](#), March 2014.

<sup>2</sup> Public Finance, [Work still to be done on Wales Bill](#), 24 March 2014

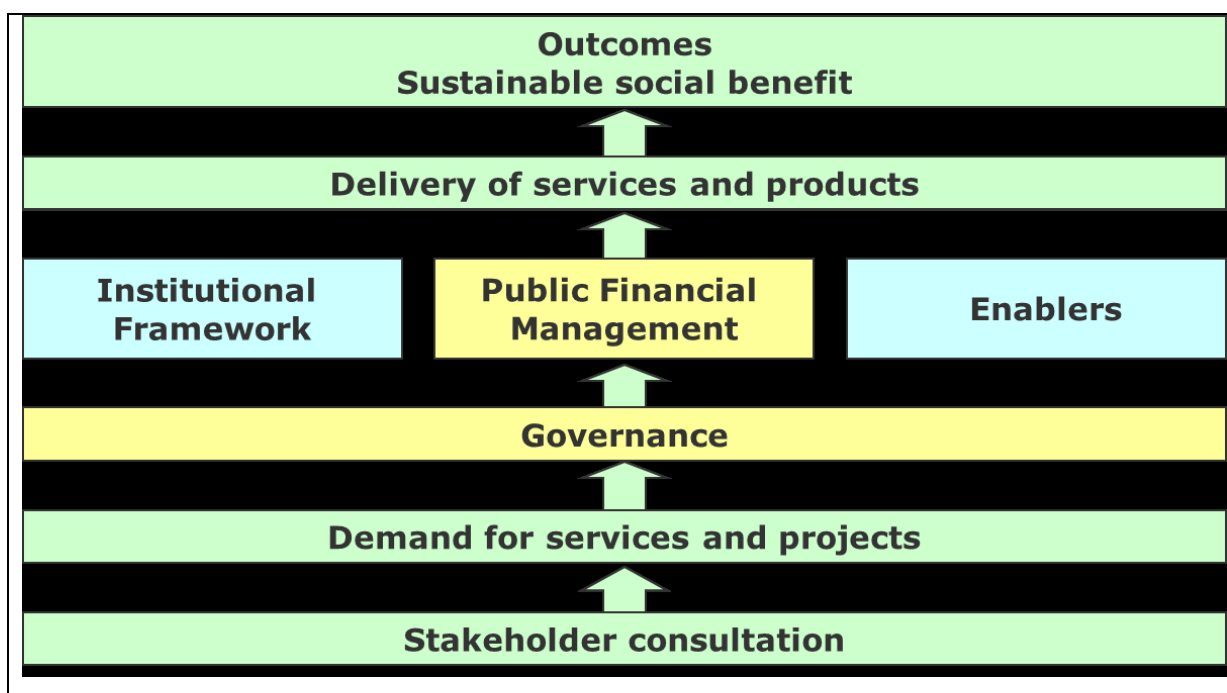
<sup>3</sup> Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012

<sup>4</sup> IFAC, [Recommendations for the G20 Nations – Meeting of September 24 – 25, 2009](#)

<sup>5</sup> CIPFA, Public Financial Management: A Whole System Approach, [Vol I: The Approach](#) and [Vol II: Additional Material](#)

<sup>6</sup> World Bank, Projects, Financial Management

effectiveness at the heart of the PFM objectives: *PFM is the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals.*<sup>7</sup> Thus, the whole is greater than the sum of the parts:



1.9 The whole system approach to the design and improvement of PFM is based on the argument that PFM will be more effective and sustainable if balanced across the full range of PFM processes. The model can be used to examine, formulate and improve PFM design. It distinguishes a number of process elements:

- **Legislation** – sets the regulatory framework for PFM, determining the powers and mandatory requirements within which public sector bodies raise and spend money. Legislation should be transparent and applied predictably so it can be consistently administered and can be navigated by civil society.
- **Standards** – established principles/rules governing the actions/behaviours of public sector bodies to achieve compliance with a common set of non-statutory requirements. Such standards include those set by international bodies such as the International Federation of Accountants (IFAC) and CIPFA, by national governments, professional bodies or on a sectoral basis.
- **Execution: Strategy and Planning** – processes which set the direction for activities requiring financial management in short, medium and longer term and frameworks within which financial performance is managed.
- **Execution: Operations** – principal financial operations needed to maintain financial discipline and resilience, deliver services and enable desired outcomes. Generally the focus is on national budgeting and accounting systems in this area. In practice while central government set the framework for spending it will be departments and other bodies who carry it out. It is important to consider the whole range of operations and the level at which they are undertaken to plan and create capacity building initiatives.

<sup>7</sup> CIPFA, Public Financial Management: A Whole System Approach, [Vol I: The Approach](#)



- **Execution: Monitoring and Internal Control** – processes designed to measure progress and achievement of milestones and keep organisations on track to achieve their objectives.
- **Assurance** – formal processes to assure stakeholders on standards and effectiveness, carried out at arm’s length from the operations they examine. The rigour, professionalism and independence of these processes contribute to public trust.
- **Scrutiny** – to oversee, influence and challenge the allocation of resources and the administration of public money. Scrutiny processes create a demand for transparency and improve accountability and build pressure for an open and honest public sector. Scrutiny is an important system of checks and balances and a way of enabling the citizen’s voice to be heard by executive authority.
- **Learning and Growing** – processes enabling public sector organisations to reflect on and learn from best practice to develop knowledge and capabilities. Such processes enable organisations to become more effective, achieve results more efficiently, sustain improvements and take responsibility for future development.

1.10 Given the package of financial powers proposed in the Wales Bill, A Welsh budget process should be considered in the context of the whole system of PFM within which it will operate, rather than in isolation.

**1.11 CIPFA recommends that:**

- **Although the Committee’s inquiry is focused on best practice for the budget process, this should be considered in the context of the whole system of PFM within which it will operate, rather than in isolation.**
- **The Committee should work with the Welsh Government to better understand the current system of PFM and how this could be improved to provide a whole systems approach in the context of additional powers.**

## **2. REAL FINANCIAL ACCOUNTABILITY**

- 2.1 The Silk Commission's part 1 report considered a range of evidence on the principles for funding, one of which was stated to be accountability.<sup>8</sup>
- 2.2 The Good Governance Standard for Public Services<sup>9</sup> states that real accountability requires a relationship and a dialogue, and involves *an agreed process for both giving an account of your actions and being held to account; a systematic approach to put that process into operation; and a focus on explicit results or outcomes. Real accountability is concerned not only with reporting on or discussing actions already completed, but also with engaging with stakeholders to understand and respond to their views as the organisation plans and carries out its activities.*
- 2.3 The International Monetary Fund (IMF), in a discussion paper on fiscal accountability, consider that fiscal transparency is an essential prerequisite for real financial accountability, and they define such transparency as: *the clarity, reliability, frequency, timeliness, and relevance of public fiscal reporting and the openness to the public of the government's fiscal policy-making process—is a critical element of effective fiscal management.*<sup>10</sup>
- 2.4 Accountability, however, is only one element of good governance<sup>11</sup> and in isolation will not provide for good stewardship of public funds. The achievement of good governance is dependent on the achievement of all the pillars required:
- Accountability – capacity to call public officials to task for actions;
  - Transparency – low-cost access to relevant information;
  - Predictability – result primarily from clear laws and regulations which are known in advance and uniformly and effectively enforced; and
  - Participation – required to generate consensus, supply reliable information and provide a reality check for government action.
- 2.5 In line with the Good Governance Standard for Public Services, CIPFA considers that true accountability requires an open dialogue and that the Committee should continue to work with the Welsh Government to improve the financial and performance information available for scrutiny to aid in transparency and accountability, and to help ensure that the Welsh budget process is informed by and adheres to all the pillars of good governance.
- 2.6 In their Part 1 report the Silk Commission stated that: *In accordance with our principle of transparency, we believe that the Assembly's procedures for the consideration of taxation, borrowing and spending should reflect international best practice.*<sup>12</sup>

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<sup>8</sup> Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012

<sup>9</sup> The Independent Commission for Good Governance in Public Services, [The Good Governance Standard for Public Services](#), 2004

<sup>10</sup> International Monetary Fund, [Fiscal Transparency, Accountability, and Risk](#)

Prepared by the Fiscal Affairs Department in collaboration with the Statistics Department

Approved by Carlo Cottarelli, August 7, 2012

<sup>11</sup> The Independent Commission for Good Governance in Public Services, [The Good Governance Standard for Public Services](#), 2004

<sup>12</sup> Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012

2.7 CIPFA agrees with the Silk Commission that to ensure full financial accountability of the Welsh Government for their financial decisions, the Welsh budget process should link the three elements of tax, borrowing and spending plans, and that all three elements should require approval by the Assembly. It is essential that each element should be as transparent as possible, to enable effective scrutiny of the Welsh Governments plans, both by the Assembly and it's committees, as well as wider civic society.

**2.8 CIPFA recommends that:**

- **The Committee build on the existing relationship with the Minister for Finance and her department to continue to improve the financial and performance information available for scrutiny to aid in transparency and accountability, and to help ensure that the Welsh budget process is informed by and adheres to all the pillars of good governance.**
- **A Welsh budget process should link the three elements of taxation, spending and borrowing plans and that all three elements should require approval by the Assembly. The process should allow for adequate scrutiny of how the Welsh Government proposes to raise and spend public money.**

### **3. THE BUDGET PROCESS**

3.1 The Silk Commission considered extensive evidence on international fiscal systems, in terms of mechanisms used to fund sub-national governments, which was published<sup>13</sup> and considered in their Part 1 report.<sup>14</sup> Similar research on international fiscal systems was undertaken and presented to the Calman Commission.<sup>15</sup> A more comprehensive review was undertaken by the IMF in 2007.<sup>16</sup>

3.2 Although such research provides a large body of information on the fiscal systems used to fund various tiers of government internationally, many of the examples found internationally are federal systems, and therefore making direct comparisons to the UK system of devolved government is problematic.

3.3 Given the large body of work undertaken in relation to fiscal systems, here the focus is on international examples of budget process and procedures, rather than funding systems. We would encourage the Committee to consider these as part of a whole systems approach. The following sections consider the budget process in terms of:

- Integration of financial planning with wider strategies;
- The role of government and parliament;
- The timing of the budget process;
- Support for scrutiny and access to information; and
- Public engagement in the budget process.

3.4 Many of our comments here are derived from a review of various papers prepared by the Organisation for Economic Co-operation and Development (OECD). Useful references, which the Committee should review, are the OECD Best Practices for Budget Transparency,<sup>17</sup> and their International Database of Budget Practices and Procedures.<sup>18</sup> The database is a particularly rich source of information on budget procedures, as it covers all the elements of the budget process, enabling such information to be seen for individual countries or country groups. It shows information on the following: general information; budget formulation; passing the budget; budget execution; accounting and audit; and performance management.

3.5 The OECD are currently consulting on Draft Principles of Budgetary Governance,<sup>19</sup> the ten draft principles being:

- Fiscal policy should be managed within clear, credible and predictable limits.
- Top-down budgetary management should be applied to align policies with resources.
- Budgets should be closely aligned with government-wide strategic priorities.
- Budgets should be forward-looking, giving a clear medium-term outlook.
- Budget documents and data should be open, transparent and accessible.

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<sup>13</sup> Commission on Devolution in Wales, [Context paper: International fiscal systems](#), 8 November 2012

<sup>14</sup> Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012

<sup>15</sup> Commission on Scottish Devolution, Independent Expert Group, [First Evidence from the IEG to the Commission](#), November 2008.

<sup>16</sup> International Monetary Fund, [Fiscal Federalism in Theory and Practice](#) (1997)

<sup>17</sup> OECD [Best Practices for Budget Transparency](#)

<sup>18</sup> OECD, [International Database of Budget Practices and Procedures](#).

<sup>19</sup> OECD, [Draft Principles of Budgetary Governance – Public Consultation](#).

- The budget process should be inclusive, participative and realistic.
- Budgets should present a true, full and fair picture of the public finances.
- Performance, evaluation and value for money should be integral to the budget process.
- Longer-term sustainability and other fiscal risks should be identified, assessed and managed prudently.
- The integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation should be promoted through rigorous, independent quality assurance.

### **3.6 CIPFA recommends that:**

- **In considering the development of a Welsh budget process the Committee applies the above principles, and that the Committee should wish to discuss proposals for the budget process with the OECD before implementation.**

### **Integration of financial planning and wider strategies**

3.7 The budget process is concerned with financial planning, and in the public sector, this tends to dominate the financial cycle. This stage should be considered in the context of the whole systems approach as described above. CIPFA considers it is essential that financial planning should be linked to the strategic and corporate planning processes,<sup>20</sup> and that the budget is simply a plan of action. Such annual plans should be developed in the context of a longer-term financial strategy, supporting the strategic objectives of government and should integrate capital, revenue and treasury management planning.

3.8 Evidence would suggest that this is not always the case. A discussion paper by the Audit Commission on world class financial management suggests that: *In many public sector bodies, the annual financial planning process is often only loosely connected to the strategic and service planning process.*<sup>21</sup>

3.9 An example of how the federal government of Australia implements an integrated planning and reporting framework to encourage good financial management and accountability is shown in [annex A](#).

### **3.10 CIPFA recommends that:**

- **The Committee work with the Welsh Government to ensure that financial planning is linked to wider strategic planning, building on improvements already underway, such as bringing responsibility for the Programme for Government reports into Strategic Budgeting and Planning. Such links should be formed with all the Welsh Government's strategic planning, across portfolios.**
- **The budget as an annual plan, should be developed in the context of a longer-term financial strategy, supporting the strategic objectives of government and should integrate capital, revenue and treasury management planning.**

<sup>20</sup> CIPFA, [Integrated Planning: An Overview of Approaches](#), 2006

<sup>21</sup> Audit Commission, [World Class Financial Management: a discussion paper](#), 2005

## **Role of Government and Parliament**

- 3.11 The roles, responsibilities and powers of both Government and Parliament in the budget process vary between countries. In some countries Parliament has a strong direct influence on the budget process while in others there is less influence. This is sometimes due to the culture and nature of politics, especially in coalition situations where debates and discussions on spending plans and priorities can occur outside a parliamentary setting. In such a situation the debate can be short with the focus on voting.
- 3.12 An extensive body of work exists on the role of the legislature in the budget process. The OECD's International Database of Budget Practices and Procedures provides country-specific information on the role of the legislature.<sup>22</sup> Other works have been undertaken by the OECD<sup>23</sup> and IMF,<sup>24</sup> amongst others. One academic in particular has constructed an index of 36 countries examining the parliamentary capacity for financial scrutiny.<sup>25</sup> The index considers six factors for legislative control:
- amendment powers
  - reversionary budgets
  - executive flexibility during implementation
  - timing of the budget
  - legislative committees
  - budgetary information.
- 3.13 The results of this study reveal substantial variation, with Westminster systems, such as in the UK, scoring close to the bottom of the index. These findings suggest that for some countries the 'power of the purse' is an important safeguard, whereas for others it remains a constitutional myth.
- 3.14 The authorisation of the budget should be more than just a formal exercise to comply with requirements, The legislature is the seat of overall political and financial accountability and it's role should not be to merely rubber-stamp decisions already taken.
- 3.15 The budget process should be seen as a key process which works best when both government and parliament cooperate within an agreed framework. It should be noted that while in some countries failure of a government to get its budget approved is seen as a 'vote of confidence' issue this is not true for all countries.
- 3.16 It is worth drawing attention to the findings of the Howatt Review in Scotland.<sup>26</sup> The then Minister for Finance and Public Service Reform appointed the group to review the Scottish Government's budgets (except local authority expenditure) to identify any that did not fit with their commitments and priorities or were not performing well. They were also tasked with proposing action, where appropriate, and to identify the implications of any proposed changes. One of the conclusions

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<sup>22</sup> OECD, [International Database of Budget Practices and Procedures](#).

<sup>23</sup> OECD Journal on Budgeting, [The Changing Role of Parliament in the Budget Process](#), B Andersen, 2009 (Vol 1); OECD Journal on Budgeting, [Role of the Legislature in the Budget Process: Recent Trends and Innovations](#), P Posner and CK Park, 2007 (Vol 7 No 3).

<sup>24</sup> International Monetary Fund, Working Paper WP/05/115, [Who Controls the Budget: The Legislature or the Executive?](#) I Lienert

<sup>25</sup> Political Studies, [Assessing the Power of the Purse: An Index of Legislative Budget Institutions](#), J Wehner, 2006 (Vol 54, 767–785)

<sup>26</sup> Report of the Budget Review Group, [Choices for a Purpose : Review of Scottish Executive Budgets](#), July 2006

of the review was that the approach to financial planning needed to have a more robust challenge function, strongly supported by the Director of Finance.

3.17 International experience would support this recommendation, and examples are shown in [annex A](#).

### **3.18 CIPFA recommends that:**

- **The Committee should consider the roles and powers of other legislatures, and use this evidence base to inform the development of a Welsh budget process. We also suggest that the Committee could ‘benchmark’ any proposals for a Welsh budget process against the index and database detailed above, to assess how they would compare with other international processes.**
- **The Committee build on the existing relationship with the Minister for Finance and her department to establish an agreed framework for the budget process, in which the Government and Assembly work together, and which encourages good PFM as part of a whole systems approach.**

### **Timing of the budget process**

3.19 The budget process should incorporate adequate time allocated to enable robust committee scrutiny and informed debate. To allow for informed debate and scrutiny the budget should be presented to the legislature at least 2-4 months prior to the beginning of the financial year.<sup>27</sup> The following is intended to provide some benchmark data in terms of time allowed for budget scrutiny in other legislatures.

3.20 The time available for budget scrutiny varies greatly between countries, for example, in the lower house of India (Lok Sabha) the budget debate lasts up to 75 days, in Germany it is up to 4 months, and in the US Congress the process can be even longer.<sup>28</sup> Further international examples are provided in [annex A](#).

3.21 In recent years the UK Government’s Spending Review cycle has become less reliable, with delays to their publications and the Spending Round 2013 providing figures for only two years (2014-15 and 2015-16), with no forecasts for financial years beyond the next UK general election. As the timetable for the spending review cycle is subject to political influence, it should not dictate the timing of the Welsh budget process and risk such potential instabilities.

### **3.22 CIPFA recommends that:**

- **The Committee consider carefully the timing of the budget process, to ensure that proposals include adequate time for scrutiny, debate and public engagement, and the time allowed should meet at least the minimum prescribed by the OECD.**
- **A Welsh budget process and timeline should not be designed around the UK Government’s spending reviews, but instead should be based**

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<sup>27</sup> OECD, [Best Practices For Budget Transparency](#)

<sup>28</sup> OECD, [International Database of Budget Practices and Procedures](#)

**on a sound timetable which is prepared to be adapted by exception if necessary.**

### **Support for scrutiny and access to information**

- 3.23 Strong and capable committees allow the legislature to develop expertise and play a greater role in the budget process. The World Bank state that: *Committees are the 'engine room' of the legislature...It is here that in-depth and technical debate can take place, away from the political grandstanding that often characterizes proceedings in the chamber.*<sup>29</sup>
- 3.24 CIPFA welcomes the fact that the Assembly has already made progress in implementing the advice of the Silk Commission that: *the National Assembly Commission may wish to consider building up capacity and expertise for financial scrutiny through the training of Members and through the research and committee support that Members receive.*<sup>30</sup>
- 3.25 Different committees should deal with different facets of public finance management, thus giving a strong and robust systems for scrutiny of the entire budget. In general, it is in committees where the potential for amending powers lies. An example of how the Swedish parliamentary committees operate in the budget process is provided in [annex A](#).
- 3.26 It is essential that the legislature and its committees have access to support and independent expertise to enable budget scrutiny. Many overseas parliaments either use, or wish to use, independent experts during the budget process in order to avoid over-reliance on government data and allow more independent scrutiny. Independent expert roles can typically include:
- Determining, examining, verifying or proposing the economic assumptions used in the budget model (e.g. from a macro-economic viewpoint);
  - Costing /verification of alternative budget proposals; and
  - Testing / verification of Government spending initiatives, plans or claims.
- 3.27 While macroeconomic policy is not a devolved matter, with the devolution of tax powers, the government's proposals for the introduction of a tax may result in the Assembly having to consider the macroeconomic impact of taxation decisions in the future.
- 3.28 The Finance Committee has previously made use of expert advisers for scrutiny of the budget, an option not yet taken up by subject committees in the Assembly. Other Parliaments, including Westminster, rely on a more formal and permanent system of support in the form of independent units. A clear issue in this respect is not whether the permanent unit is truly 'independent' of government but whether its work is seen as, and trusted to be, completely unbiased. Such trust must be earned and can be easily lost.
- 3.29 The Scottish Parliament have established a Financial Scrutiny Unit<sup>31</sup> within their existing Information Service (sPICE). The unit provides independent analysis and support to committees of the Scottish Parliament and to individual Members on

<sup>29</sup> World Bank, [Effective Financial Scrutiny: The Role of Parliament in Public Finance](#), J Wehner.

<sup>30</sup> Commission on Devolution in Wales, [Context paper: International fiscal systems](#), 8 November 2012

<sup>31</sup> Scottish Parliament Information Centre, [Financial Scrutiny Unit](#)



budgetary issues, including costing of specific spending proposals, and research on all areas of the economy and public finances.

- 3.30 In 2010, the UK established the Office for Budget Responsibility (OBR),<sup>32</sup> to provide independent fiscal and economic forecasts on which to base budget decisions. The Chair of the OBR has stated that its establishment was a response to the need in the UK for credibility of fiscal management, which had been undermined by over-optimistic public finance forecasts.<sup>33</sup>
- 3.31 Examples of support for budget scrutiny in other countries are provided in [annex A](#).
- 3.32 Committees also need access to administrative information. For example some information in Norway continues to be provided by the Ministry of Finance which has a long tradition of providing objective and unbiased information to Parliament.<sup>34</sup> In Germany the budget committee interacts with government departments through regular briefings and expenditure reports, and in India the Public Accounts Committee receives reports and departmental accounts and revenue receipts from the comptroller and auditor general.<sup>35</sup>
- 3.33 Regular communication and consultation between government and the legislative committees increases the capacity of the legislature to scrutinise the budget, and following approval, augments the authority of the government to properly implement the budget.

### **3.34 CIPFA recommends that the Committee considers:**

- **Making wider use of independent expert advice during the budget process and encouraging the other committees of the Assembly to do so.**
- **The merits of establishing a dedicated financial scrutiny unit, perhaps within existing structures, such as the Scottish Parliament’s Financial Scrutiny Unit.**
- **Building on the existing relationship with the Minister for Finance and her department to continue to improve the financial and performance information available for scrutiny, and to encourage other Welsh Ministers to engage with their appropriate subject committees in a similar manner to improve the information available for budget scrutiny across all portfolios.**

### **Public engagement and transparency**

- 3.35 One of the key roles of the legislature in considering the budget is to open the process up for debate in civic society and bring in the ‘public voice’. As discussed above, the Good Governance Standard for Public Services<sup>36</sup> states that real

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<sup>32</sup> [Office for Budget Responsibility](#)

<sup>33</sup> Chote, Robert (2011), Presentation to the 3rd Annual meeting of OECD Parliamentary Budget Officials, Stockholm, April 28.

<sup>34</sup> OECD, [Budgeting in Norway](#)

<sup>35</sup> Budget preparation and Approval, S Schiavo-Campo in Budgeting and Budgetary Institutions, 2007, World Bank.

<sup>36</sup> The Independent Commission for Good Governance in Public Services, [The Good Governance Standard for Public Services](#), 2004

accountability involves: *...engaging with stakeholders to understand and respond to their views as the organisation plans and carries out its activities.*

- 3.36 The IMF's Code of Good Practices on Fiscal Transparency,<sup>37</sup> highlights the importance of public availability of information, open processes of budget preparation, execution and reporting and independent reviews and assurances of the integrity of fiscal forecasts, information and accounts. All of which function to raise public awareness and build public confidence in the credibility of the budget.
- 3.37 The Good Governance Standard for Public Services<sup>38</sup> provides some general examples of good practice in engaging stakeholders and making accountability real, including the following:
- Assessing the effectiveness of policy and arrangements for dialogue with service users and accountability to the public, to evaluate their impact on decisions and to decide what improvements may be needed.
  - Use of a range of models, from citizens' juries to community time banks (mutual volunteering by members of the public, working alongside service providers to support their neighbours), to promote public involvement.
  - Publication of information on research into the public's views. It is important to include the diversity of the public and of service users in this information, to give a complete and accurate picture.
  - Assessing the extent to which these principles of good governance are applied, and report publicly on this assessment, including an action plan for improvement where necessary.
  - Systematic '360-degree' feedback from a representative sample of stakeholders, can provide valuable insights about the organisation's relationships.
- 3.38 The degree of public involvement in the budget process differs from country to country and may be heavily affected by the government as well as parliament itself. Examples are provided in [annex A](#).
- 3.39 The budget is the single most important policy document of government, where policy objectives are reconciled and implemented in concrete terms. Budget transparency is a key element of good government. As a consequence, the OECD has developed a set of best practice in this area.<sup>39</sup>
- 3.40 The OECD best practice advocates the publication of a pre-election report. This would serve 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 OECD recognizes that the feasibility of producing this report may depend on constitutional provisions and electoral practices. Optimally, it should be released no later than 2 weeks prior to elections. Such a practice, if adopted in Wales, may increase the interest in engaging with the budget process amongst the electorate.
- 3.41 The OECD, also recommends the issue of a long term report. This should assess the long term sustainability of current Government policies. It should be released

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<sup>37</sup> IMF, [Code of Good Practices on Fiscal Transparency](#), 2007

<sup>38</sup> The Independent Commission for Good Governance in Public Services, [The Good Governance Standard for Public Services](#), 2004

<sup>39</sup> OECD, [Best Practices For Budget Transparency](#)

at least every 5 years or when major changes are made in substantive revenue/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). Again, such a report demonstrating the long-term impact of budget decisions and how they will impact on civic society may serve to increase public interest and engagement.

3.42 The International Budget Partnership (IBP) collaborates with a network of civil society organizations around the world to reform government budget systems and influence budget policies. Their Open Budget Initiative<sup>40</sup> is a global research and advocacy programme to promote public access to budget information and the adoption of accountable budget systems.

3.43 In 2006 the IBP launched the first Open Budget Survey,<sup>41</sup> which evaluates whether governments provide public access to budget information and enable participation in the national budget process. The survey covers 100 countries and is undertaken biennially. It covers the transparency of the budget process, as well as the broader accountability landscape, as assessed through the lens of civil society and citizen engagement in budget processes as well as the oversight role of legislatures and supreme audit institutions.

3.44 From the results of the survey, the IBP have also constructed an Open Budget Index (OBI) to measure the overall commitment to transparency and allow for comparisons to be made between countries. This assigns a score to each country based on the information it makes available to the public during the budget process.

#### **3.45 CIPFA recommends that:**

- **When considering the budget process the Committee bear in mind the IMF's standards for openness and transparency and build these into the process.**
- **The Committee take note of the good practice recommended by the Good Governance Standard for Public Services and the OECD and attempt to build in such practices to the budget process.**
- **The IBP's Open Government Survey should be considered and lessons learned from other countries. The Committee should aim for a budget process which would score highly on the Open Budget Index, and may wish to consult the IBP when developing proposals to ensure public engagement is a focus of a Welsh budget process.**

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<sup>40</sup> International Budget Partnership's [Open Budget initiative](#)

<sup>41</sup> International Budget Partnership, [Open Budget Survey 2012](#)

#### **4. PLANNING AND BUDGETING FOR OUTCOMES**

- 4.1 CIPFA welcomes the fact that the Committee are exploring the potential for more outcomes-focused budget procedures, building upon their increased focus in recent years on value for money and seeking to improve the links between the Programme for Government (PfG) and the budget process.
- 4.2 CIPFA advocates a more outcomes-based approach to budgeting and financial management, as discussed above in relation to the whole systems approach, in our publication *at the edge of chaos and ready for outcomes*,<sup>42</sup> and in our recent submission to the Scottish Parliament.<sup>43</sup> In the latter we propose that a consistent public management system integrating funding distribution, service delivery mechanisms and outcomes should be developed to support the achievement of best value for taxpayer funds, financial sustainability in service provision, and an embedded outcomes focus in budgeting, monitoring and accountability.
- 4.3 Outcomes-based budgeting is a form of performance budgeting, and presents the purpose and objectives for which funds are required, costs of programmes and activities required to achieve those objectives and the outputs to be produced under each programme. A comprehensive system will quantify the entire results-based chain:
- Inputs and intermediate inputs – resources required to produce outputs.
  - Outputs – quantity and quality of goods/services produced.
  - Outcome – progress in achieving programme objectives.
  - Impact – programme goals.
  - Reach – people who benefit/disbenefit from a programme.

#### **Current budget approach**

- 4.4 The current budget approach taken by the Welsh Government is incremental and is designed to meet their reporting obligations to HM Treasury,<sup>44</sup> and reflects the organisational structures within the Welsh Government itself. Such an approach is primarily input-based and we believe there is a need to move towards a more outcomes-based approach to public service management and to improve the quality, availability, evaluation, monitoring and reporting of data in relation to outcomes. This time of change with the devolution of further powers could represent an opportunity to adopt such an approach.
- 4.5 We understand that this year, for the first time, responsibility for the annual Programme for Government (PfG) report has been moved into the Welsh Government's Strategic Budgeting department. Although this is a welcome development and indicates the intention to provide closer links between the budget and PfG, the emergence of any visible improvement in linking budgets and outcomes is likely to be a long term process and will require the co-operation of all departments within the Welsh Government.

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<sup>42</sup> CIPFA, [Public Finances: At the Edge of Chaos and Ready for Outcomes?](#) March 2013.

<sup>43</sup> [CIPFA Submission to the Scottish Parliament, Local Government and Regeneration Committee: Flexibility and Autonomy of Local Government](#), March 2014

<sup>44</sup> As set out in HM Treasury's [Consolidated Budgeting Guidance](#)

- 4.6 A pilot project in Scotland suggests there is a strong foundation for the development of outcome-based budgeting in the public sector under current devolved arrangements.<sup>45</sup> The project supported two Community Planning Partnerships (CPPs) to understand how their budget decisions affect the delivery of their outcomes (as set out in Standard Outcomes Agreements). Barriers currently preventing this outcomes approach from being fully implemented were identified, but it was found that a consistently applied and mainstreamed outcome planning framework could help to tackle these issues. The project clearly identified the need for significant local and national change in processes and cultures. There is clear consensus that a stronger focus on outcomes is needed.<sup>46</sup>
- 4.7 The move towards an outcomes-based regime is no easy task, with establishing and agreeing measurable policy outcomes being problematic at a technical, professional and political level. In our submission to the Commission on Public Service Governance and Delivery,<sup>47</sup> we suggested a five point blueprint for public services in Wales, including an integrated system of performance management and measurement which enables tracking of public performance from government level all the way to local delivery level, and how this could be used to better link performance to budget decisions.

### **Performance or Outcome Budgeting – International Experience**

- 4.8 The last two decades have seen increased enthusiasm for performance management and budget reforms. The experience with various forms of performance budgeting are wide ranging. Most of the reforms are still experimental and there are no truly mature examples of an integrated performance budgeting system. However, there are lessons to be learned from international experiences.
- 4.9 The OECD International Database of Budget Practices and Procedures.<sup>48</sup> is a rich source of information on budget procedures, and part 6 of the database records information in relation to how countries conduct and integrate performance management into their budget processes. The World Bank also provides information on international good practice, reference models and case studies on performance budgeting.<sup>49</sup>
- 4.10 In 2005 the OECD undertook a survey on performance information across their member countries,<sup>50</sup> which provides an overview of the development and use of performance information in the budget process. This looked at:
- Different approaches to performance budgeting;
  - Different institutional roles/responsibilities in developing performance information;
  - Trends, challenges and success factors for implementation; and

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<sup>45</sup> [Outcome Budgeting in the Scottish Public Sector: Final Summary Report](#)

<sup>46</sup> Scottish Government, Commission on the Future Delivery of Public Services, [Report on the Future Delivery of Public Services by the Commission chaired by Dr Campbell Christie](#), June 2011

<sup>47</sup> CIPFA, [The Commission on Public Service Governance & Delivery: A Five Point Blueprint for Public Service Reform in Wales](#), September 2013

<sup>48</sup> OECD, [International Database of Budget Practices and Procedures](#). Part 6 Performance Management.

<sup>49</sup> World Bank, Budget preparation: [Policy Based Budgeting](#)

<sup>50</sup> OECD Journal on Budgeting, [Performance Information in the Budget Process](#), Curristine T, 2005 (Vol 5 No 2)

- How the information is used in the budget process, and what factors contribute to this.
- 4.11 The survey found that the majority of countries undertake performance-based budgeting at the level of the central Ministry for Finance, in that performance information is used to inform, but not determine, budget allocations. It also found that the main reason for not using performance information is a lack of a method by which to integrate it into the budget process.
- 4.12 Examples of how performance based budgeting has been implemented in other countries are provided in [annex A](#).

### **Critical conditions for performance budgeting**

- 4.13 A number of critical factors are likely to influence the success or failure of any reforms to introduce performance or outcomes-based budgeting, particularly in terms of generating and maintaining the momentum for reform. Such factors include:
- **Motivation to change** – consensus amongst participants is essential. Officials will need to understand the motivation for performance measurement and budgeting and political will is critical to implementation of results-based accountability.
  - **Legislative support** – strong and consistent political support from the legislature is essential for success. Budget reform inevitably impacts on all levels of government, but cannot operate independently of the political environment. Legislators should be involved in establishing performance goals, developing performance indicators, monitoring the performance process and evaluating performance results. Reform will not succeed if the legislature and executive have conflicting objectives or understandings of why reform is necessary.
  - **Public support and engagement** – reforms should provide direct benefits for stakeholders and the wider public. Without public involvement performance budgeting risks becoming a bureaucratic exercise detached from citizens priorities. Public involvement improves the meaningfulness of the data generated and reported and ensures credibility.
  - **Administrative capacity and bottom-up approach** – reforms should take account of administrative systems already in place and help departments and agencies to develop approaches suitable for their own contexts, rather than impose systems which are not operationally feasible in reality. Issues that need to be considered include: staff training, IT systems and accounting systems in place and the financial cost of reforms.
- 4.14 In Canada,<sup>51</sup> changes to the public financial management system have generally been implemented by ‘piloting’ or testing the proposed changes prior to full scale implementation. This may be an approach to consider to aid in determining whether all the above critical factors are in place and identify any potential problem areas or unintended consequences.

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<sup>51</sup> OECD, [Budgeting in Canada](#)

#### **4.15 CIPFA recommends that:**

- **The Committee should work with and encourage the Welsh Government in its endeavors to better link the Programme for Government and other government strategies to the budget process and use information on priorities and performance to inform budget decisions.**
- **The Committee should explore the potential for a more outcomes-based approach to budgeting and financial management, in the context of a whole systems approach. This should aim to provide a consistent public financial management system integrating funding allocation, service delivery mechanisms and outcomes to support the achievement of best value for taxpayer funds, financial sustainability, and an embedded outcomes focus in budgeting, monitoring and accountability.**
- **In doing so the Committee should consider international examples of performance based budgeting and the lessons learned from these. In particular the rich sources of best practice and guidance provided by the OECD and World Bank.**
- **The Committee should also consider the critical factors required for performance based budgeting before considering any proposals for reform, in particular the administrative capacity of the Welsh Government to implement such an approach. Piloting any changes may help in identifying potential issues.**
- **In exploring a more outcomes-based approach the Committee should work with the Welsh Government to address the inherent issues of determining measurable policy outcomes at a technical, professional and political level. If such an approach were adopted in Wales, CIPFA would be committed to working with the Assembly, the Government and wider partners to aid in establishing clear and measurable outcomes to underpin such an approach.**

## **5. IMPLEMENTING THE DEVOLVED FINANCIAL POWERS**

5.1 In the whole systems approach to public financial management (PFM),<sup>52</sup> CIPFA define a number of elements, including legislation, which sets the regulatory framework, determining the powers and mandatory requirements within which public sector bodies raise and spend money. It should be transparent and applied predictably so it can be consistently administered and can be navigated by civil society. Such legislation should cover:

- **Taxation raising powers** – the government’s definition of powers to raise taxation. Powers may vary at different levels of administration: national, regional and local government. There may also be a range of taxation sources (e.g. property, income, sales taxes). Powers to levy local taxes may be limited by national government.
- **PFM legislation**– powers and limits of operation, including over budgets, charging and spending. This may also include requirements to be detailed in Standards.
- **Funding conditions** – terms on which funds may be received and applied. These are binding in that spending outside these terms will be repayable.
- **Accounts and audit requirements** - prescription of essential elements of accounting and auditing in the public sector.
- **Public access to information** – requirements to define public rights to information held by public sector organisations to support accountability, transparency and equity.

### **Legislating for a Welsh Budget Process**

5.2 The Wales Bill provides for the Assembly to legislate to set its own budget procedures, by amending Schedule 7 to the *Government of Wales Act 2006*.

5.3 The budget principles and rules should be legislated for in descending order: the constitution (or devolution law in this case), an overall framework law, other laws and regulations, such as those governing taxes and the annual budget law. Only the most fundamental principles should be incorporated into the highest levels of legislation. Consistent with those principles, a framework law, should contain the basic rules for managing the public finances, allocating powers, accountabilities and oversight, such as the *Public Finance and Accountability Act (Scotland) 2000*.<sup>53</sup> Below this there may be further levels of instructions on administrative issues and budget preparation. Finally, proposals for the coming financial year should be incorporated into an annual budget law.

5.4 The framework law, often referred to as an organic budget law, or public finance act, should define:

- The overarching objectives of public financial management – fiscal control, strategic resource allocation, operational effectiveness, service orientation.
- The principles – accountability, integrity, transparency, compliance with rules, participation.

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<sup>52</sup> CIPFA, Public Financial Management: A Whole System Approach, [Vol I: The Approach](#) and [Vol II: Additional Material](#)

<sup>53</sup> [Public Finance and Accountability \(Scotland\) Act 2000](#)



- The process – budget preparation, execution, reporting, audit.
  - The responsibilities – of whom, for what, how and when; including the division of responsibilities between the government and legislature.
- 5.5 More specifically an organic budget law should contain the following elements:
- Introduction to the objectives and principles;
  - Definitions – including of fiscal deficit;
  - General provisions, such as the basis of accounting and financial reporting;
  - Rules of budget coverage and presentation – including treatment of extra-budgetary funds and fiscal risks;
  - Stages and rules for budget preparation – including powers of amendment such as in year changes via supplementary budgets;
  - Procedures for budget debate, scrutiny, approval and legislative amendment;
  - Principles and rules of external audit;
  - Accountability provisions; and
  - Often relations with local government are also included.
- 5.6 As noted above, such an organic budget law should have as its introduction a clear statement of the fundamental principles of good governance and public finance. Such principles should include:
- No monies to be collected or expended, services provided nor exemptions granted unless authorised.
  - Transparency of financial and service information – not only openness but positive effort to provide budgetary information, and government priorities and plans in accordance with international standards on fiscal transparency<sup>54</sup> in usable form.
  - Compliance of fiscal policy with wider economic and social objectives – including the placement of the annual budget process in a multiyear perspective
  - Individual responsibility of ministers, senior officials, accounting officers, etc for the acquisition, use, accounting and reporting of public resource and the taking of measures to prevent abuse of such resource.
  - Public financial management is conducted to ensure expenditure control, efficient resource use and service provision and high integrity.
  - Unity of the budget and Treasury to enable comparisons of the relative effectiveness of different types of planned expenditures.
  - Conformity with accepted international standards of budget preparation and execution, financial management and control and audit.
- 5.7 Such framework law should also include provision to spend based on provision in previous year, in the absence of budget approval prior to the beginning of the financial year. Similar to those arrangements currently provided for in Section 127 of the *Government of Wales Act 2006*.<sup>55</sup>
- 5.8 There is no generally accepted best practice in budget legislation. Laws need to be drafted to suit legal, cultural, and political conditions. To aid in understanding public finance law and assist in reviewing or drafting legislation, a database of current organic budget laws has been established. These laws have been collected

<sup>54</sup> As detailed by the IMF's [International Standards Related to Fiscal Transparency](#)

<sup>55</sup> [Section 127](#), *Government of Wales Act 2006*

from numerous sources, including World Bank and IMF staff, country Finance Ministries, and consultants.<sup>56</sup>

### **Legislating for Welsh Taxes**

- 5.9 As discussed above the Government's powers to raise taxation should also be enshrined in legislation. Again this involves a hierarchy of legislation, which should be transparent and predictably applied.
- 5.10 The tax powers of the Welsh Government are set out in the *Wales Bill*. Following enactment of the Bill, the Welsh Government will likely legislate to provide for general tax conditions, administration and management. In Scotland, the *Revenue Scotland and Tax Powers Bill*<sup>57</sup> has been introduced by the Scottish Government for these purposes.
- 5.11 Further legislation will then be required for each tax, to set out the specific conditions, arrangements and rates for that tax. For example, in Scotland the *Land and Buildings Transaction Tax (Scotland) Act 2013*,<sup>58</sup> and the *Landfill Tax (Scotland) Act 2014*,<sup>59</sup> have been passed in preparation for the implementation of these two taxes under financial powers devolved under the *Scotland Act 2012*. Similar legislation would have to be brought forward in the event that any new Welsh taxes are proposed.
- 5.12 CIPFA sit on the Welsh Government's Tax Forum and from this we understand that the government intends to:
- consult on legislation dealing with general principles of tax collection and management in Autumn 2014; and
  - consult on legislation on a Welsh Tax on Transactions involving interests in Land (WT TIIL), as a potential replacement for Stamp Duty Land Tax in Spring 2015.
- 5.13 CIPFA recommends that:**
- **The Committee work closely with the Welsh Government to formulate framework legislation, as described above, to establish and provide for a Welsh budget process.**
  - **As there is no generally accepted best practice for budget legislation, the Committee should consider the conditions, including those identified earlier in this paper, applicable in Wales, and should consider international examples of budget law to identify which elements are most suited to the Welsh context.**
  - **The Committee consult with the Welsh Government on their proposals for tax policy and legislation to inform the development of their plans.**

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<sup>56</sup> [Joint World Bank- IMF Country Budget Law Database](#)

<sup>57</sup> [Revenue Scotland and Tax Powers Bill](#)

<sup>58</sup> [Land and Buildings Transaction Tax \(Scotland\) Act 2013](#)

<sup>59</sup> [Landfill Tax \(Scotland\) Act 2014](#)

## **6. TAX DEVOLUTION, BLOCK GRANT REDUCTION AND ASSOCIATED RISKS**

### **Block grant adjustments – Stamp duty land tax and landfill tax**

6.1 The Command Paper accompanying the Wales Bill sets out that the Silk Commission's recommendation that the adjustment of the block grant for Stamp Duty Land Tax (SDLT) and landfill tax should not be indexed against the corresponding UK tax base.<sup>60</sup> This means that the Welsh Government will carry the full responsibility for managing any volatility of these devolved tax revenues. The Command Paper states:

*...it is not straightforward to identify the precise nature (or size) of such an adjustment that both governments agree is likely to be equitable in the longer term.*

6.2 The Command Paper suggests a similar mechanism to that proposed for business rates, that is, making a deduction to the Barnett baseline, so reducing all subsequent consequentials. However, while business rates have a Barnett comparability factor, other taxes do not. It is suggested that a similar effect could be achieved by reducing all Barnett consequentials by a small percentage, reflecting the proportion of Welsh Government spending funded by the devolved taxes. The Command Paper states that: '*Growth in the devolved taxes would therefore replace the amount deducted from Barnett consequentials.*'

6.3 This potentially raises two issues. Firstly, how would the 'small percentage' deduction be decided upon? Secondly, the suggestion that growth in these taxes would replace the deduction from the block grant. These two taxes represent policy levers which could potentially be utilised by the Welsh Government to help towards achieving their economic and environmental objectives, respectively. Development of tax policy along these lines would likely result in reductions in the revenues collected from replacement taxes, rather than growth. Therefore, such a deduction may actually act as a disincentive to use of these taxes as policy levers.

6.4 The issue of the block grant adjustment for these taxes was a point of contention during the Scottish Parliament's scrutiny of the *Scotland Act 2012*. The intention was that there would be a one-off reduction to the block grant which would then be deducted for all future years. This deduction was to be calculated on the basis of actual outturn data for SDLT and estimates of revenues for landfill tax.<sup>61</sup> However, it became apparent that there was considerable volatility in forecasts for SDLT, and the Chief Secretary to the Treasury suggested that the most reliable approach would be to look at five year averages.<sup>62</sup> Given events in recent years, this led to some disagreement over the time frame to be used, and the Finance Committee noted:<sup>63</sup>*...it is unsurprising that the Scottish Government prefers an adjustment based on a five year average pre-devolution of SDLT while the UK Government favours an adjustment which includes a forecast of receipts post-devolution.'*

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<sup>60</sup> [Cm8838, Wales Bill: Financial Empowerment and Accountability](#), March 2014

<sup>61</sup> [Strengthening Scotland's Future](#), Cm 7973, November 2010

<sup>62</sup> Scottish Parliament Finance Committee (2013g) Official Report 1 May 2013. Edinburgh: Scottish Parliament. Available at - <http://www.scottish.parliament.uk/parliamentarybusiness/28862.aspx?r=8292&mode=pdf>

<sup>63</sup> Scottish Parliament Finance Committee (2013c) *8th Report 2013 (Session 4) Report on implementation of the financial powers in the Scotland Act 2012*. Edinburgh: Scottish Parliament. Available at - [http://the.scottish.parliament.uk/S4\\_FinanceCommittee/Reports/fiR-13-08w.pdf](http://the.scottish.parliament.uk/S4_FinanceCommittee/Reports/fiR-13-08w.pdf)

- 6.5 In response to the Committee's report the UK Cabinet Secretary for Finance, Employment and Sustainable Growth stated: *'The two key points here are the level at which to set the initial block grant adjustment, and whether there should be any further changes to the adjustment thereafter (...) They remain under discussion and no agreement has yet been reached.'*
- 6.6 The Command Paper accompanying the Wales Bill states: *'The Government continues to discuss this proposal, and other options, with the Scottish Government and has now opened similar discussions with the Welsh Government.'*<sup>64</sup>
- 6.7 CIPFA recommends that:**
- **The Committee seek clarity from the Minister for Finance on her discussions with HM Treasury in relation to the deduction mechanism for these taxes, and what mechanism the Welsh Government would like to see implemented.**
  - **The Committee explore with the Minister her intentions for using these devolved taxes as policy levers, and how the potential impact on overall funding is being considered.**

### **Block grant adjustment in the event of income tax devolution**

- 6.8 The Wales Bill provides for the devolution of income tax powers, subject to a referendum. It retains the controversial 'lockstep' constraint, meaning that all income tax rates would have to rise or fall together, similar to that in the *Scotland Act 2012*. This constraint remains despite the fact that it has been criticised by all four party leaders in the Assembly, as being unfit for purpose.<sup>65</sup>
- 6.9 The Command Paper<sup>66</sup> sets out the detail of how block grant adjustments would be made to account for income tax revenues, along the lines of the Silk and Holtham recommendations.<sup>67</sup> Deductions are proposed to be by indexed deduction, i.e. linked to changes in the UK's tax base. This would involve a first year reduction which would then be indexed against growth in the UK tax base to give the deduction for future years. Indexing to the tax base incorporates the 'no detriment' principle, as in Scotland, as the UK tax base reflects decisions made at the UK level. To manage risks during the transfer of powers there will be a transitional period of two to three years, as in Scotland.
- 6.10 In transitional years, and year 1, the actual deduction to the block grant will be determined by the amount of tax revenue generated by the Welsh rate of income tax, set at 10p, as forecast by the Office for Budget Responsibility (OBR). Should the Welsh Government set the rate at 10p, then the OBR forecast will determine the amount of tax revenues due to the Welsh Government and the deduction to the block grant. If the Welsh Government sets an alternate rate, the OBR forecasts of Welsh revenues will be paid to the Welsh Government, and the block

<sup>64</sup> [Cm8838, Wales Bill: Financial Empowerment and Accountability](#), March 2014

<sup>65</sup> Wales Online, [Parties unite to condemn 'lockstep' shackles on income tax powers for Wales](#), February 2014

<sup>66</sup> [Cm8838, Wales Bill: Financial Empowerment and Accountability](#), March 2014

<sup>67</sup> Commission on Devolution in Wales, [Empowerment and Responsibility: Financial Powers to Strengthen Wales](#), November 2012 and independent Commission on Funding and Finance for Wales, [Fairness and Accountability: a new funding settlement for Wales](#), July 2010.

grant deduction determined by a separate forecast of the amount of revenue that would have been generated by a 10p rate.

- 6.11 In subsequent years, the deduction made in the previous year will be indexed against movements in the corresponding UK tax base. Thus, if the UK tax base were to contract, the block grant adjustment would also decrease by a corresponding percentage, and vice versa.
- 6.12 It should be noted that initially the size of the income tax bases in Wales and the UK will be based on forecasts. Thus, there will be a reconciliation process by which forecasts will be replaced with actual figures. This will show whether an adjustment for over/under payment needs to be applied for the following financial year. This reconciliation process is likely to be subject to a time lag, around a year after the end of the financial year, thus there could be considerable catch up across financial years in terms of adjustments.
- 6.13 The expectation is that forecast error for revenues (based on the devolved tax base) will be similar to forecast error for the block grant adjustment (based on the UK's tax base). This should therefore minimise the extent to which post-reconciliation adjustments need to be made.
- 6.14 It has been suggested that historically the Welsh tax base has grown more slowly than that of the rest of the UK. However, in their context paper, the Silk Commission appeared to find no evidence of this.<sup>68</sup> Should this prove to be the case, then the retention of the lockstep constraint may lock in such slower growth.

### **The challenge of forecasting**

- 6.15 As discussed above, calculation of the block grant deductions, as well as the ability of the Welsh Government to plan its finances, will be based on forecasts of the revenues from the devolved taxes. Such forecasts will be prepared by the OBR, as is the case for Scotland. In preparing these forecasts for the devolved administrations, the OBR cannot utilise the same methodology as they do for UK forecasts, due to a lack of information at the level of the devolved regions.
- 6.16 This means that the forecasts are based on the devolved regions historic share of the relevant UK tax, and assume that this remains at the recent average level.<sup>69</sup> These forecasts are subject to change due to a number of factors, including forecasts for the wider economy and UK Government changes to tax policy. Concerns have been raised regarding the level of variance in these forecasts.<sup>70</sup> If we consider how the most recent Scottish forecasts differ from those published one year ago, we can see the extent of the difference.
- 6.17 This is likely to impact on the ability of government to adequately plan their finances and assess whether plans are financially sustainable for the future. It may also mean that revenue borrowing powers may have to be used, and so

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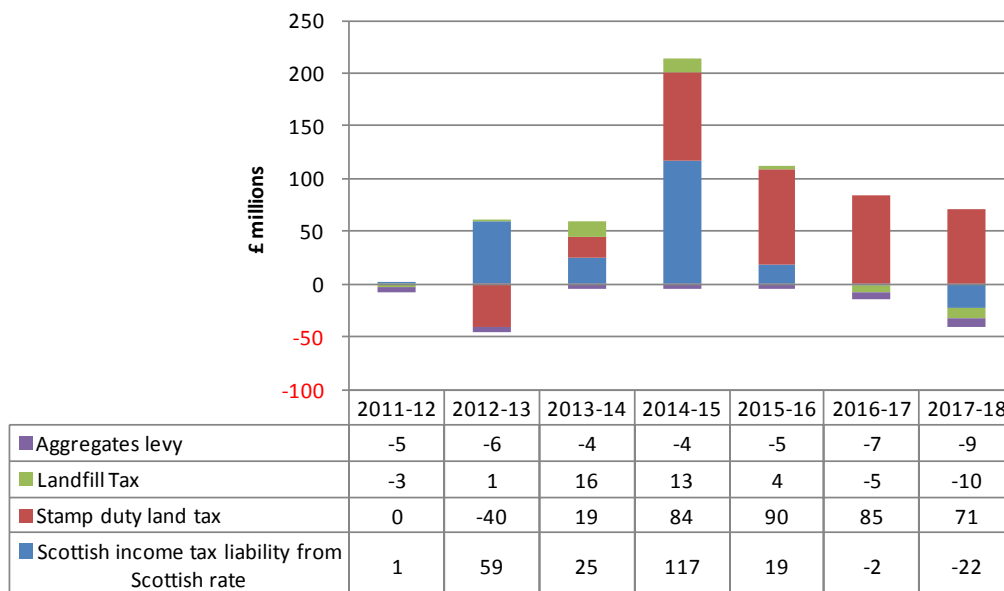
<sup>68</sup> Commission on Devolution in Wales, [Economic Context In Wales](#), 2012

<sup>69</sup> OBR, [Methodology Note: Forecasting Scottish taxes](#), March 2012.

<sup>70</sup> Scottish Parliament, Finance Committee, [8th Report 2013 \(Session 4\) Report on implementation of the financial powers in the Scotland Act 2012](#), October 2013.

generate greater liabilities, or reduce public spending, to compensate for errors in forecasting rather than poor economic performance.

### Variation in Scottish tax forecasts between March 2013 and March 2014



Source: OBR, Economic and fiscal outlook: Scottish tax forecasts, , [March 2014](#) and [March 2013](#).

Note: Forecasts assume that the 10p rate of income tax is levied and that current rates of other taxes are retained.

6.18 Thus, the devolution of tax powers will give greater autonomy and accountability to, but will also mean that there is the potential for greater variability in the resource available, as Wales will bear the risk of changes in the levels of tax revenues, whether this be due to economic performance or forecasting errors. In turn, this will have implications for wider policy decisions and the future sustainability of public services. Improvements in the availability and clarity of financial and economic information would help to identify such risks, aid in decision making and provide greater public confidence in the accuracy of the financial position and plans for the future.

#### 6.19 CIPFA recommends that:

- **The Committee seek to form a close relationship with the OBR in order to be aware of, and help inform, the processes and issues associated with producing Welsh tax forecasts.**
- **The Committee seek evidence from the Treasury and the Welsh Government on their views of the potential impacts of the lockstep constraint, together with the proposed mechanism of block grant deduction.**

#### Other budget risks

6.20 Most of the risks identified above in relation to tax devolution are likely to be able to be managed by utilising revenue borrowing powers. However, the increased powers and accountability, and responsibility for budget procedures also raise a further risk in terms of fiduciary risk. This is grounded in the principle that no funds can be raised or spent without approval by elected representatives. Thus,

the government has fiduciary responsibility to ensure that the budget is executed as approved by the legislature.

- 6.21 The World Bank<sup>71</sup> defines fiduciary risk as the risk that government spending diverges from the plans authorised in the budget. However, a broader definition refers to the additional risk that funds are wasted or spent ineffectively:

*'...the risk that funds are not used for the intended purposes; do not achieve value for money; and/or are not properly accounted for. The realisation of fiduciary risk can be due to a variety of factors, including lack of capacity, competency or knowledge; bureaucratic inefficiency; and/or active corruption.'*<sup>72</sup>

- 6.22 Although such risks generally raise concern in relation to use of international development aid funding, they are equally applicable to national budgets and should be safeguarded against. The adoption of robust budget procedures as discussed above, a move towards a more outcomes-based focus on public financial management and robust scrutiny of how the Welsh Government are executing their budget by the Committees of the Assembly should serve to act as safeguards against such risk.

#### **6.23 CIPFA recommends that:**

- **The Committee bear this risk in mind when developing the budget procedures discussed above, and encourage other Committees in the Assembly to undertake robust budget monitoring throughout the financial year, to ensure that budgets are being executed in line with the plans approved by the Assembly.**

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<sup>71</sup> World Bank, 2003 country financial accountability assessment guidelines to staff

<sup>72</sup> Department for international Development, [Managing Fiduciary Risk when Providing Financial Aid](#), 2011

## **ANNEX A: INTERNATIONAL EXAMPLES**

### **Integration of financial planning and wider strategies - Australia**

In Australia, the Department of Finance and Administration of the federal government implements an integrated planning and reporting framework to encourage good financial management and accountability.<sup>73</sup> A high level corporate plan containing key objectives and performance measures is updated annually by the Executive and is utilised to set the values and direction. Four year business plans are then prepared by departments specifying the contribution they will make to the overall objectives, detailing the underlying assumptions and risks. The Executive reviews and approves these plans and detailed annual budgets are prepared. Business plans and budgets are directly linked to performance agreements. Reports of performance are prepared each month, as well as management reports incorporating analysis of variance and full-year forecasts, and these are reviewed by the Executive.

### **Role of Government and Parliament – The Netherlands and Sweden**

In the Netherlands,<sup>74</sup> Government departments are not good at 'volunteering' savings. As a result the Ministry of Finance has become knowledgeable about departmental operations and often suggests what departments can do to make savings.

In Sweden,<sup>75</sup> the Ministry of Finance challenges and queries department estimates for programmes – for example what assumptions were used and how realistic they are. Departments often over-estimate requirements. The Ministry of Finance provides cabinet with recommendations on the 27 area aggregated figures as well as details of the departmental submissions.

### **Timing of the budget process – The Netherlands and Slovenia**

In the Netherlands,<sup>76</sup> the annual budget consists of a memorandum overview and 23 budget bills (expenditure areas). MPs have two weeks to question Ministers on spending proposals. Opposition parties can put forward 'shadow proposals' but importantly these will (almost invariably) be costed by the Central Planning Bureau. Re-allocation between the 23 separate budget heads is extremely rare.

Detailed scrutiny of each of the 23 budget heads is carried out by subject committees. Although some changes may be made within the head total figure these are not normally significant. Generally any proposal will be expected to state which other programme (within the head) is to be cut or what ongoing revenue source will fund it.

In Slovenia,<sup>77</sup> the Budget is set for two years on a rolling basis (i.e. it is an annual event). There is a very detailed chart of accounts with some 9,000 lines of budget at the lowest level of authorisation. The budget is set out in both objective (programme/service) and subjective (type of spend e.g. employees) terms. This is to ensure a detailed and tight control over spending and to enforce accountability. This

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<sup>73</sup> Australian Government, Department of Finance, [Budget process](#)

<sup>74</sup> OECD, [Budgeting in the Netherlands](#)

<sup>75</sup> OECD, [Budgeting in Sweden](#)

<sup>76</sup> OECD, [Budgeting in the Netherlands](#)

<sup>77</sup> OECD, [Budgeting in Slovenia](#)



however requires allowable virement<sup>78</sup> rules to maintain flexibility. Subject committees have 10 days to suggest amendments to the budget proposals. The Finance Committee then co-ordinates and reviews the subject committee feedback or proposals and the budget. The Finance Committee has 5 days to formalise suggested amendments. The Government then tables a second budget which may take into account some or all of the proposals.

### **Support for scrutiny and access to information – Sweden, Canada, the Netherlands and Norway**

In Sweden, historically the process of budget approval by the parliament (Riksdag) was described as undisciplined. Debate often focused on individual appropriations with little consideration of the overall effects. The total spending envelope only became clear at the very end of the process. Parliament recognised the need for reform in the 1990s and established a commission to bring forward proposals. The reformed process consists of 3 steps: parliament fixes the aggregate level of spending and revenues in the Spring Fiscal Policy Bill, tabled in April and approved 2 months later. The budget is tabled in September, after which the Finance Committee considers and recommends the allocations to each of 27 expenditure areas. Following approval of the division of aggregate expenditures by the house, various sectoral committees allocate funding to individual appropriations within their spending areas. These committees are permitted to change the appropriations, but must do so only within the agreed total for that spending area. The budget is approved in December, prior to the commencement of the financial year in January.<sup>79</sup>

In Canada, the Office of the Parliamentary Budget Officer (PBO)<sup>80</sup> was established in 2008. This position was established in response to political events rather than financial pressure, mainly due to reports of misadministration reported to the auditor general. Within three years, the PBO had achieved an impressive record, including five economic and fiscal updates and more than 20 research reports, which have been widely praised.<sup>81</sup> There remains debate as to whether this position should be replaced by an independent office, backed by legislation to strengthen accountability.

In the Netherlands,<sup>82</sup> the Central Planning Bureau (CPB),<sup>83</sup> was founded in 1945 and plays a key role in the development of the budget policy contained in the Coalition Agreements. The CPB is a unique institution. It is a Government institution but is completely independent; it commands the trust of all political parties and the public at large. Prior to elections, the CPB will issue its economic forecast for the coming four years. All political parties use the CPB economic assumptions as the basis for their policy platforms. The larger political parties submit their policy platforms to the CPB ahead of elections for costing and to assess their economic impact. When new policies, or policy compromises, are being negotiated, the CPB will assess their impacts as well.

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<sup>78</sup> Virement - an administrative transfer of funds from one part of a budget to another.

<sup>79</sup> OECD, [Budgeting in Sweden](#)

<sup>80</sup> [Office of the Parliamentary Budget Officer](#)

<sup>81</sup> Brooke, J. (2010), 'The Parliamentary Budget Officer Two Years Later: A Progress Report', *Canadian Parliamentary Review*, (33): 37.

<sup>82</sup> OECD, [Budgeting in the Netherlands](#)

<sup>83</sup> [CPB Netherlands Bureau for Economic Policy Analysis](#)

In Norway,<sup>84</sup> Statistics Norway<sup>85</sup> is independent from the Government. Some of its research is requested by the Government, but most of it is done independently. Part of their research is funded by a Research Council where Statistics Norway competes with other research institutions for support. Since 1990, Statistics Norway is also obliged to serve political parties in Parliament, who can ask for calculations and model simulations of certain policy proposals. Such an approach if adopted here could assist in the development of alternative spending proposals.

### **Public engagement and transparency – Canada, Romania and OECD evidence**

In Canada,<sup>86</sup> efforts have been made to improve the Government's financial position, mainly through changes in process and control over Government's own departmental budget preparation process. Included however was also a 'pre-budget consultation process' designed to remove some of the secrecy surrounding the budget preparation process. This helped to involve the public in a 'mature' debate with an awareness of the economic and financial situation and involve the Opposition. By consulting with Parliament and the public the main issues of contention can be identified by the Government and adjusted where necessary before the budget is considered in Parliament.

In Romania,<sup>87</sup> the Government is required to consult with the Economic & Social Council (CES) which consists of Government, employers associations & trade unions. The CES acts as a useful sounding board for policies, however its actual influence and power is limited.

Also of interest to the committee may be the OECD document, Strengthening participation in public expenditure management: policy recommendations for key stakeholders.<sup>88</sup> Rather than attempting to summarise this extensive policy briefing, here we draw attention to some overseas practices, which are underway to strengthen participation:

*Phase 2 – Analysis – this stage begins once the budget has been presented in the legislature. At this point in the cycle, the budget is subject to the highest level of public scrutiny. This is the primary phase for legislative participation in the budget process – Parliaments will scrutinize the contents of the budget and depending on the political and institutional environment, seek to amend particular items, At this point, civil society organizations such as the Institute for Democracy in South Africa (IDASA) and the Institute for Economic Affairs in Kenya will conduct budget analysis. Their work seeks to demystify the inaccessible aspects of the budget for the general public and legislators and to highlight the underlying policy implications of the budget for objectives such as poverty reduction. CSOs often make this critique the subject of public debate by using the media and they may also form alliances and share information with the legislature in order to increase the effectiveness of their advocacy efforts.*

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<sup>84</sup> OECD, [Budgeting in Norway](#)

<sup>85</sup> [Statistics Norway](#)

<sup>86</sup> OECD, [Budgeting in Canada](#)

<sup>87</sup> OECD, [Budgeting in Slovenia](#)

<sup>88</sup> OECD, [Strengthening participation in public expenditure management: policy recommendations for key stakeholders](#), 2002

*Phase 4 – performance evaluation – final phase of the cycle involves assessing the performance of the public services that the budget funds. The critical participatory element of this phase is citizens feedback about the quality of access to and satisfaction with the services they receive from Governments. One instrument to collect this information, administered by civil society groups or independent groups hired by the Government are "report cards" – surveys that focus on people's experience of public services.*

## **Performance or Outcome Budgeting – International Experience**

### Denmark's Performance Management Model<sup>89</sup>

All ministries and agencies of the Danish government have performance management arrangements . Performance contracts exist between ministries and agencies for the production of the agency's outputs and outcomes. These were piloted in the 1980s but are now an integrated feature of management of the public sector. Quality of the contracts has improved over time, but the quality of the descriptions of outputs and outcomes could be better.

Annual reports are produced showing results achieved relative to those set out in the performance contracts, or all specified outputs and outcomes. These are published three months before the end of the financial year and are audited by the national audit office.

There is also a performance-related pay system, introduced in the 1990s, which links the salary of an agency's director general to the achievement of results specified in the performance contract.

This system serves as a formal structure under which the ministries and agencies can discuss results to be achieved and ministries can indicate priorities. This framework has developed a more results-based culture in the public sector.

### New Zealand – Contractualism and output appropriations

New Zealand<sup>90</sup> has adopted a private sector management approach to government functions. It reorganised its civil service and made all public positions contractual, based on an agreed set of results. Agency heads are held responsible for delivery and reporting of expected outputs relative to targets and budgets, and statements of intent commit ministers to achieving progress towards outcomes. Programme management was decentralised and managers given flexibility and autonomy in budget allocations and implementation within the defined framework and budget. Their accrual-based budgeting and accounting system enables a complete picture of the actual cost of each activity to be seen.

In terms of budget reforms, the 1989 Public Finance Act shifted the emphasis of the budget from inputs to outputs. Departments receive appropriations for the purchase of outputs. The Fiscal Responsibility Act 1994 required government to state fiscal objectives and report progress on achieving outputs.

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<sup>89</sup> OECD Journal of Budgeting, Budgeting in Denmark, Blondal, JR and Ruffner, M, 2004 (Vol 4 No1).

<sup>90</sup> Treasury Board of Canada, Linking Resources to Results, 2003

Output appropriations encourage a focus on what is delivered, and the value obtained from government spending rather than how allocations are made. Resources are linked to results at three levels:

- Resources are appropriated against expected outputs in the budget;
- Resources are reported against actual output performance; and
- Actual outputs (and outcomes) are tracked and reported against targeted performance.<sup>91</sup>

The contractualism approach to outputs has led to improvements in the machinery of government and financial performance of the public sector. Departments have a clear indication of what is expected, their output is clear and fully costed and departmental heads have discretion to manage resources and operations. Budget reforms in New Zealand have gained much attention over the last two decades, and together these two reforms have been credited with the improved efficiency of the public sector.

#### Malawi – Budget reform with little benefit

Malawi's reform programme<sup>92</sup> began in 1995 with the reallocation of spending to priority areas, a move to activity-based budgets and a bottom-up approach to budgeting. These reforms showed some benefits, such as improving the ability to link priorities and budgets at ministry level.

However, the bottom-up approach to budgeting resulted in unintended consequences, in that activity costing did not take account of the overall spending envelope, giving unpredictable budgeting and undermining the credibility of the reforms. Sector development of activity-based budgets and prioritisation of activities occurred in silos and resulted in basic compliance with procedural requirements and limited impact on spending outcomes.

In 1997 the Public Sector Investment Programme was discontinued, assumed to be replaced by the ongoing reforms. As a result of this the Ministry of Finance had little information on ongoing investment projects, and few of these were included in the development budget.

Since that time further reforms have tried to address these issues and adopt further improvements. However, in the meantime significant transaction costs have been incurred and much information has been lost.

This example highlights the importance of considering individual reforms in the wider context of the whole system of public financial management and taking account of local conditions and circumstances as well as capacity and the introduction of reforms in a rational sequence.

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<sup>91</sup> New Zealand Treasury, A Guide to the Public Finance Act, 2005.

<sup>92</sup> Swedish international Development Agency, Public Financial Reform in Malawi, Durevall, D and Erlandsson, M, 2005.

## Budgeting for Outcomes in the US

The Government Finance Officers Association (GFOA) of the US and Canada promote an approach known as Budgeting for Outcomes (BFO) for Smaller Communities.<sup>93</sup> This describes the approach to budgeting in four steps:

- Determine the price of government – how much revenue will be available?
- Determine the priorities of government – what results matter most to citizens?
- Decide the price of each priority result – how much should we spend to achieve each result?
- Decide how to deliver each priority at the set price – how can we best deliver the results that citizens expect?

In contrast to traditional incremental budgeting, where the starting point is what was funded by a department in the previous budget, the starting point becomes what results the jurisdiction wants to achieve. The budget office works with results teams to identify activities and programs most likely to achieve results rather than on allocating budgets. Elected officials spend more of their time making decisions on how much revenue citizens can afford to provide and on choosing results and less time on deciding how much money to cut from the budget and where to cut. The incentives for agencies and departments change from making it difficult for the budget office to find places to cut their budgets to figuring out what activities work best to achieve results and how to provide those activities at lower cost.

A number of jurisdictions in the US have adopted this approach, from states to county school districts. In 2002 the State of Washington used the BFO approach to deal with a \$2 billion deficit.<sup>94</sup>

## Budgeting for outcomes across central and devolved governments - Australia

In relation to how an outcomes-based approach to budgeting could work in the devolved context, the Committee may wish to consider the public financial management framework in Australia, which operates a federal system.<sup>95</sup> Their budget and financial management approach focuses on outputs and outcomes and this has evolved from reforms undertaken in the early 1980s. It consists of a comprehensive framework formed around the following goals:

- Improving the quality of services;
- Making the operations of government more efficient;
- Increasing the chances that policies which are chosen and implemented will be effective;
- Enhancing the transparency of government operations; and
- Making savings in expenditure.

The Australian Government's framework places a strong emphasis on outcomes and outputs as the basis for performance information. Outputs are the goods and services produced by the individual department or agency on behalf of Government for external

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<sup>93</sup> GFOA, [Budgeting for Outcomes](#)

<sup>94</sup> [A solution for uncertain times: Budgeting for Outcomes](#), Kinney AS and Stein B, California Counties, May/June 2008

<sup>95</sup> [Australia's Experience in Utilising Performance Information in Budget and Management Processes](#), Report for the 3rd Annual Meeting of the OECD Senior Budget Officials Network on Performance and Results

organisations or individuals. Outcomes are defined as the Government's objectives for each portfolio. Outcomes are the results or impacts that the Government actually wants to achieve.

Departments and agencies are responsible for measuring and assessing the performance of outcomes and outputs. Within departments and agencies, there is likely to be strategic planning at the outcomes level as well as the organisation level. Most agencies will also develop longer-term plans that stretch for three to five years and review changes on an annual basis. In the budget and in annual reports, agencies are required to report at the outcome level and annual report requirements also require that agencies report, at a minimum, on the organisational basis as well.

Portfolio Budget Submissions and Annual Reports prepared by departments and agencies provide a comprehensive report to the Government, Parliament and public on resourcing and performance by outcome and output. These provide public information on performance targets at the beginning of the year and a report against these at the end of the year. However, this information is not yet well integrated into the annual budget process.

At present, there is no mechanism, and no incentives, to ensure that performance information is taken into account on a standard basis when the Government is making budget decisions. A further challenge is that the nature of Commonwealth expenditure is not always amenable to the outcomes and outputs framework, for example the Commonwealth has less direct involvement with the delivery of health and education outcomes than many other countries do.

The Australian focus on outcomes has identified two recurring themes in establishing good performance information:

- the quality of performance information in relation to agency contributions to outcomes and outputs; and
- the limited use of the performance information for decision making in the budget context.

With respect to outcomes and outputs, it is important to ensure links between programmes, outputs and outcomes are clear and measured effectively – particularly if this performance information is to inform budget decision making.

With respect to enhancing the utility of performance information for budget decision making, a major challenge in introducing a more systematic approach to programme reviews will be to ensure that it adds value to Government considerations, uses agency resources efficiently and does not become a mechanistic exercise.

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# Eitem 6

Yn rhinwedd paragraff(au) vi o Reol Sefydlog 17.42

Mae cyfyngiadau ar y ddogfen hon



# Eitem 7

Yn rhinwedd paragraff(au) vi o Reol Sefydlog 17.42

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