

Submission to the Finance Committee, National Assembly for Wales

Inquiry into Best Practice Budget Process

International Best Practice : What are the principles of fiscal accountability? How do other countries achieve devolved financial accountability while retaining central fiscal control?

The cornerstone of fiscal accountability in a decentralized federation is transparency. This transparency is achieved by ensuring that the fiscal planning documents are sufficiently robust to allow parliamentarians and the public to understand the broad fiscal strategy and goals of the government (over the short and medium-term), as well as a credible public accounts that identify the fiscal outcomes and explanations of any deviations of actual versus planned spending.

The OECD offers good guidance in this regard through the “Best Practices for Budget Transparency”, which enumerate the types, content, and objectives of financial documents that should be prepared over a jurisdiction’s planning cycle. Importantly, the OECD’s principles offer some flexibility to allow jurisdictions to tailor their planning and reporting cycle to their idiosyncratic needs.

In the Canadian context, the federal and provincial (subnational) governments share almost all the same tax bases. In addition, under the *Constitution Act*, they also share authority for many of the same spending areas (e.g. Natural Resources, Environment, Industrial Policy). A significant share of federal spending is also comprised of transfers to subnational governments to support healthcare and other social programs (although this is a minority of aggregate national spending).

On the revenue side, there is limited formal collaboration between the national and subnational governments. Over the past decade, the federal government has attempted to lead tax reforms through short-term incentive programs (e.g. one-time transfers to eliminate provincial capital taxes), as well as suasion (e.g. calls from the federal government to provincial governments to reduce corporate tax rates, following similar reductions in federal corporate taxes).

On the spending side, the two levels of government often attempt to coordinate their efforts through negotiation among the public service and political levels. This includes cost sharing, as well as harmonization of federal and provincial programs. With respect to the major federal transfers for healthcare and social programs, there is limited power for the federal government to control or monitor how subnational governments acquit themselves.

Lining Budgets to Outcomes: What new budget procedures are needed to improve the links between policies, spending programmes and outcomes? How would outcomes generated by the UK Government and the global economy be identified separately from those generated by local Welsh Government policies?

This is a challenge faced by any government that attempts to isolate the impacts/results of specific program interventions on the broader economy and society.

The OECD's guidance regarding performance budgeting provides a well-articulated framework for linking program spending to outcomes. This includes the incorporation of performance data into the fiscal planning documents, as well as the processes by which they are considered by parliament and presented to the public.

In the Canadian context, while the federal government and many provincial governments have adopted varying aspects of a performance budgeting regime, there is limited coordination to ensure concordance.

That said, in principle, the OECD's guidance does provide a conceptual framework to link the global and national outcomes with those of sub-national governments. This is performed by identifying the short and medium-term program outputs (i.e. the direct, measurable results of expenditures), and then setting these in the context of broader outcomes (i.e. overall results of across the economy), which are influenced by the specific program and other factors.

The Canadian federal government previously published an annual study that linked federal program interventions to broader economic and social outcomes. However, this report was discontinued in 2011, due (in part) to a perception that the report was not useful for parliamentary deliberations or budgetary decision-making.

