AN OVERVIEW OF THE CANADIAN BUDGET PROCESS

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Thank you for this opportunity to participate in this roundtable on state financial control. I will provide you with an overview of the Canadian government’s budget process to give you a comparative perspective as you deliberate on the various elements and approaches that will fit your unique circumstances and objectives.

Let me begin with some general observations.

In most political systems, the development of the budget is one of the important, if not the most important activity of the government in any given year. The budget is the expression of a government’s policy agenda and its priorities. It determines resource allocation, who gets what funds; it spells out new program funding initiatives; it reflects trade-offs among competing interests and it usually is a product of a relatively long and complex process involving many participants, both within and outside government.

In Canada’s democratic tradition, these elements are very much in play. The budget is a high profile political document: the executive plays a dominant role in budget preparation; the legislature, our Parliament, in its representative function, tries to shape and influence the outlines of the budget and performs its legislative and oversight functions through its review and approval procedures for the budget. And all throughout these processes, both the executive and legislative arms are subject to intense lobbying efforts from all sectors of society, from individuals to interest groups, civil society, private sector organizations, all vying for a piece of the budget pie. There is the usual tussle between executive and legislative power. Again in Canada, this political tug-of-war was recently magnified when the life of the current minority government was put to a test when it presented its 2005 budget bill for a vote in Parliament. It won with a tiebreaker vote from the Speaker of the House of Commons. All these to say that the budget process in any country is influenced by many factors including its constitutional framework, its balance of political power, its history and traditions as well as the roles and expectations of the actors, the public and the media.

The Budget Process and Key Actors

A process called “The Expenditure Management System” (EMS) serves as the underlying structure for the Canadian budget process. It provides the framework for the budgeting and resource allocation, outlines the key roles of various actors and institutions on the legislative and executive side, and the participation of the public, identifies the process timetable, and identifies the reporting and accountability for results requirements for the process. Figure 1 is an illustration of the Expenditure Management System. Figure 2 is an illustration of the key players and their roles.

(Source: Treasury Board Secretariat, Canada)
The key stages and key players in the cycle are as follows:

1. Budget Preparation: (June to September)

   Cabinet convenes around June a retreat to consider broad elements of the upcoming budget based on discussions on the economic, political climate, reports on public issues and concerns and stocktaking on government priorities. The results of the discussions is a broad direction in the form of a cabinet decision setting out the plan to guide officials in central agencies and departments in their budget preparations.

   Central Agencies (Privy Council Office, Dept of Finance, Treasury Board Secretariat) work with departments to integrate the advice from Cabinet policy committees, the Treasury Board and the parliamentary committees to develop strategies and options for the Minister of Finance to consider as part of the Budget Consultation Process.

2. Budget Consultation: (September to December)

   The Department of Finance, with the assistance of other central agencies and departments prepares the Budget Consultation Papers, covering the economic and fiscal outlook and prospective fiscal and expenditure targets. The Minister of Finance releases these papers in October, and begins consultation with the Standing Committee on Finance, provincial finance ministers, the general public and stakeholders. The Minister of Finance develops the budget strategy, drawing on the results of the consultation process, the recommendations of the Standing Committee, the recommendations of the Cabinet policy committees and the reduction and reallocation options that the President of the Treasury Board has put forward.

3. Budget Decision: (January to March)

   Cabinet reviews the Budget strategy, including fiscal targets, new spending initiatives and reductions. The Prime Minister and Minister of Finance make the final decisions. The Department of Finance finalizes the Budget documents, while the Treasury Board Secretariat, in consultation with departments and agencies, finalizes the Main Estimates, incorporating Budget decisions to the extent possible. The Minister of Finance delivers the Budget Speech in February followed by the tabling of the Estimates, which set out the detailed allocation of resources to departments and programs, by the President of the Treasury Board.

4. Budget Review and Approval: (March to June)

   Following the tabling of the Estimates (under the House of Commons rules, no later than March 1st), the House of Commons begins its
deliberations. The Estimates are automatically referred to the **Standing Committees of the House of Commons**. The Standing Committees call upon Ministers, senior officials, and other interested parties to appear before them. In their reviews, Standing Committees have available to them a number of documents: the budget, the government expenditure plan, the Estimates and Report on Plans and Priorities for the department, and the Departmental Performance Reports tabled in Parliament the previous Fall. By May 31, the Committees report, or are deemed to report on the Estimates back to the House of Commons.
Figure 1
The Expenditure Management System

- Final decisions on Budget
  - January-February
  - Cabinet committees: Minister of Finance, Ministry of Finance, Treasury Board, PCC/PCO

- Budget speech
  - February
  - Cabinet committees: Treasury Board, Treasury Board, Ministry of Finance

- Tabling of Estimates
  - February
  - House of Commons

- Preparation and review of departmental Business Plans
  - March-June

- Review and release of departmental Outlooks
  - May-June
  - Cabinet committees: PCC/PCO

- Cabinet review of priorities
  - June

- Release of Budget Consultation Papers
  - October

- Cabinet review of Budget consultation strategies
  - September-October

- Finance-TBS
  - Treasury Board

- Diaz-Ibarguen
Figure 2
Roles in the Expenditure Management System

Cabinet
- Review of budget strategies, policy priorities, and fiscal targets

Parliament
- Examine standing committee review and report on Estimates and departmental Outlooks
- Standing Committee on Finance reviews and reports on Budget Consultation Papers

The Public
- Provide input to individual ministers and the Minister of Finance on the Budget
- Comment on proposed spending plans to parliamentary standing committees

Policy committees of Cabinet
- Formulate strategic sector priorities for input into the budget and expenditure planning processes
- Oversee the design and implementation of new programs
- Develop reallocation package to fund any significant new initiatives

Expenditure Management System

Finance Minister/Department
- Set the fiscal framework
- Focus on the economic outlook, macroeconomic management, tax and fiscal policy, expenditure management at the macro level with primary emphasis on major statutory programs and debt management
- Prepare Budget Consultation Papers and the budget documents

Treasury Board/Secretariat
- Account for expenditures including Main Estimates
- Help develop reallocation options
- Review departmental Business Plans
- Focus primarily on all expenditures other than major statutory expenditures and public debt and manage the Operating Reserve

Privy Council/Office
- Focus on overall government and prime ministerial priorities and the integrity and functioning of the system
- Provide support to Cabinet and its committees

Departments and Agencies
- Deliver effective and efficient programs and services
- Develop departmental Business Plans and release Outlooks that reflect budget decisions
- Prepare departmental Estimates, including Part III

Service to the public and value for money

Expenditure and Budget Planning and Coordination

Budget consultations
A. Parliament and the Budget: The Principles of Parliamentary Control

There are two principles of Parliamentary control of public money:
- Government should have no income that is not granted to it by Parliament
- Government shall make no expenditures except those approved by Parliament

The budgetary and control practices flowing from these principles include the following:

1. There is a budget that brings together all the government’s financial needs to provide a clear and unified picture.
2. The budget is prepared annually; Parliament does not grant government permanent rights to spend money; it requires it to obtain approval to spend each year and for stated purposes. (The budget has two types of expenditures that require the approval of Parliament. One is called “voted appropriations” which require annual approval through an annual appropriation bill; the second is called “statutory expenditures which Parliament has authorized on an ongoing basis through enabling legislation, e.g. employment insurance, fiscal transfers to provinces).
3. Parliament has the right to debate, criticize and recommend amendments to the budget. (This is done primarily through the Parliamentary committee process, when each Standing Committee reviews the “Estimates”, which are the spending plans of each government agency; the Departmental Plans and Performance Reports, which are annual reports tabled by each agency on its strategic goals and program objectives and the results achieved in meeting these objectives).
4. The government must account fully to Parliament for its management of public money.
5. An independent auditor, responsible only to Parliament (the Auditor General of Canada), audits the accounts and his/her reports are promptly made available to Parliament.
6. Parliament (through the Auditor General) audits the accounts of both revenues and expenditures, in almost any way it chooses, with Parliamentary surveillance and control being as selective or comprehensive or as loose or rigid as Parliament desires.
7. The Auditor General is an Officer of Parliament who reports to the House of Commons. It produces an annual report on the federal government’s summary financial statements which gives an opinion, much like a private commercial auditor would, on the fairness of the financial information in
relation to the government’s accounting policies and generally accepted accounting principles. The Auditor General also does performance audits which examine management practices, controls and reporting systems with a focus on results.

8. The Auditor General reports publicly up to four times a year to the House of Commons on matters that the AG believes should be brought to the attention of the House. The Auditor General’s Reports are reviewed by the Public Accounts Committee, which is chaired by an opposition member. In Canada, the Public Accounts Committee is the principal legislative oversight mechanism for the expenditure of public funds.

B. Other Mechanisms for Control

1. The Consolidated Revenue Fund (CRF). The most basic element of budgetary control is the central management of the consolidated revenue fund in which all government revenue must flow. Departments and enterprises are not permitted to establish their own separate accounts. All expenditures by the government from the CRF require the approval of Parliament.

2. Ministers and Deputy Ministers’ Responsibilities

Ministers are responsible and accountable to the Prime Minister and Parliament in two fundamental ways: individually for their performance in carrying out the responsibilities of the portfolio assigned to them by the Prime Minister and collectively, in support of the Cabinet team and its decisions.

Parliament confers power on a Minister through parliamentary statutes that set out departmental powers, duties and functions for which the Minister is individually responsible. Many of these powers are normally delegated to Deputy Ministers and departmental officials, who act on their behalf.

The principal statute or law for ensuring financial control is the Financial Administration Act (FAA), which authorizes the Treasury Board to establish policies, directives, standards and guidelines on the management of public money. The policies of the Board are intended to ensure expenditures comply with the law, satisfy the needs for parliamentary control and reporting, and ensure the efficient, economic and prudent use of public resources. Under the FAA, the Treasury Board assigns considerable duties and responsibilities to Deputy Ministers for the management of public money, including the establishment of an adequate system of internal control and audit to ensure that allotments
provided by the Treasury Board are not exceeded; the establishment of procedures and maintenance of records respecting the control of financial commitments and providing the required certification to authorize any payment to be made.

In conclusion, let me state that the Canadian budget process is in continuous evolution, to respond to changing circumstances. There is certainly a growing trend in Canada for the legislative branch to seek a more assertive role in the budget process, not only in shaping the contents of the budget but in overseeing its implementation. The Public Accounts Committee, in particular, is enjoying a resurgence of attention in our country, by virtue of recent reports of the Auditor General focusing on the misuse and unauthorized use of public funds. The Auditor General has become a central figure in the call for strengthened accountability systems and for these systems to focus on performance and results. I believe that this focus on accountability and performance reporting will become an integral part of our budget planning and implementation system.

Thank you.