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## **Report from the Study Visit of the Delegation of the Budget Affairs Commission of the NPC and Provincial People's Congress**

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The Parliamentary Centre organized a study tour in Canada for a Chinese delegation led by Mr. Xia Guang, Deputy Director General of the Budget Examination Branch of the Budget Affairs Commission of the National People's Congress. The delegation was made up of middle-level managers representing not only the budgeting arm of the national-level legislature but also a balanced mix of budget institutions of five provincial legislatures, ranging from less developed provinces such as Henan and Inner Mongolia to wealthier provinces such as Jiangsu. A balanced gender representation was ensured in the selection of the delegates, with three females included.

### **Background and Purpose**

Financial oversight is a constitutional power of the People's Congresses in China at both the national and provincial levels. But it was not until recently that a staff entity was created to assist the NPC in processing details of the budget by professional standards and norms. The Budget Affairs Commission was established at the NPC level only in 1998 and subsequently replicated at a number of provincial congresses. Young as it is, the Commission has taken on a prominent mandate and responsibility throughout the budget cycle, from the budget approval at the early stage to public accounts examination at the end. Budget and estimates of the Chinese government are referred automatically to the Commission for item-by-item pre-examination before they are tabled at the Congress. Upon the completion of a fiscal year, the Office of the Auditor General also consulted the Budget Affairs Commission for the latter's inputs before audit reports are released.

The budget system in China is currently under a major overhaul, highlighted by an NPC initiative to amend the Budget Law adopted in 1994. The focus of the reform is to bring the NPC to the forefront of the budget process. The Budget Affairs Commission officially ranks as a ministerial-level staff institution but is currently understaffed with only 20-odd employees, high-caliber as they are. In light of the growing demand for its engagement, the Budget Affairs Commission is eagerly seeking to strengthen its capacity in budget oversight. Exchanges with foreign peers are perceived to be a good way of learning and a good source of knowledge.

The purpose of this visit was to study the Canadian budget system, particularly the roles and responsibilities of various key stakeholders in budget planning, implementation and oversight. Particularly interesting to the delegation is the mechanism by which government departments interact to shape the budget and provide accounts for their expenditures. Due to the fair representation of provincial congresses in the delegation, the provincial budget process and the relationship between the federal and provincial spending powers have also been identified as research topics for the study mission.

## **Summary of the Program: Balanced Mix of Perspectives**

The official program of the week-long visit contained three components. The first day of the tour was devoted to an orientation on the Canadian political system featuring federalism and multi-partisan politics and overviews of the federal and provincial legislatures and the budget process in Canada. The initial visit to the Canadian federal system and power division between executive, legislative and judicial branches shed light on the fundamentals upon which the dynamics among various institutions in the budget process were shaped. On the following day, the delegation met with officials from the Legislative Assembly and government of British Columbia, who brought complementary perspectives on how the budget process is coordinated and overseen at the provincial level. The last two days of the tour focused on the federal level and insights were brought from both the government departments and parliamentary committees that play decisive roles in the budget compilation and review. The summary of important points of discussion will be provided in the next section.

In between meetings, tours were arranged for the delegation to the Parliament Buildings in Victoria and the Parliament Building and Museum of Civilization in Ottawa. The connection drawn to the history of Canada and the Parliament reinforced the understanding of the evolution and trends in the Canadian system of democratic governance and provide a richer context for the otherwise fragmented knowledge about the Canadian budget system. A welcome dinner was also hosted for the delegation in Victoria, to which BC presenters were invited, in order to facilitate discussion in casual environment about any issues and topics not explored as thoroughly during formal meetings and to help build linkages between the provincial delegates and their Canadian counterparts.

## **Summary of Issues and Points of Discussion**

### **Federalism and Intergovernmental Relations in the Budget Process**

Most Canadian presenters elaborated on the federal system in Canada and the mechanism by which spending powers are divided and shared between the federal and provincial levels. It was noted that, as certain areas of the provincial jurisdiction (e.g. healthcare and education) became more important and hence financially costly in a welfare system, the capacity of provincial governments to deliver public services was hampered by their limited powers of taxation. In order to establish comparable levels of social service across provinces regardless of large variances in their fiscal capacity, fiscal equalization transfers from the federal government to the “have-not” provinces became necessary. The figures presented by a number of speakers all indicated a surge in transfer to provinces both as an absolute amount and as a share of the federal budget. By exercising its spending power under the blessing of “peace, order and good

governance”, the federal government could exert considerable influence in policy-making that has traditionally been considered the sovereignty of the provincial government.

The Chinese delegation sought clarification about the formula that helps determine the level of fiscal transfer to each province. The Canadian speakers responded that it was a sophisticated formula negotiated based on the analysis of revenue-expenditure ratio. Upon request, Canadian speakers illustrated the mechanisms to mediate the interests of the federal and provincial governments, which include:

1. Intergovernmental Affairs Office of the Privy Council Office that is responsible for monitoring and coordinating federal/provincial relations on daily basis;
2. Ministerial meetings taking place periodically to address concerns of line departments of the same portfolio at both the federal and provincial levels;
3. Prime Ministers’ meetings that take place annually to bring matters of priorities and cross-departmental nature to the attention of top executives

The delegation was seeking clarifications on the mechanism to hold provincial governments accountable for the use of the fiscal transfer from the federal level. It was explained that a fiscal transfer was usually negotiated between the federal and provincial governments with political considerations and based on five conditions, i.e. universality, accessibility, mobility, comprehensiveness and public administration of the services to be funded by the transfer. Once the transfer was made, however, the federal government kept its hand off and the responsibility to ensure the proper use of it rest exclusively with the provincial government.

### **The Budget Objectives and Players**

David Good conceptualized the budgetary process as a game involving two sets of players – spenders and guardians, which interact with a stable pattern of mutual expectation. Guardians, namely Department of Finance and the Treasury Board, control and manage the budget while spending departments, agencies and crown corporations seek to increase their expenditures to pursue new initiatives and avoid expenditure cuts. Good added to the framework two players - prioritizers (Prime Minister’s Office and the Privy Council Office) and watchdogs (Auditor General’s Office) - due to their increasing intervention into the budget process at the front and back ends.

David Good’s presentation related the roles and functions of various budgeting institutions to three fundamental objectives of budgeting, which he summed up as:

1. maintenance of aggregate fiscal discipline
2. allocation of resources in accord with government priorities, and
3. promotion of the efficient delivery of services.

Officials from finance department and treasury board at both the federal and provincial levels demonstrated how budgeting responsibilities were delineated along those objectives. It was noted that the department of finance was responsible for determining fiscal aggregates/limits based on macroeconomic conditions. As the number of public programs expanded, the TBS was created to assume distinct responsibility for promoting efficiency in the delivery of programs and for sound financial management. It was noted that the responsibility for resource allocation has traditionally been shared between the Department of Finance and the TBS but recently gradually to the Department of Finance.

It was noted that in recent years, Prime Minister's Office and Privy Council Office had been involved more decisively in the budget process, particularly in prioritizing the spending initiatives. At the request of the delegation, Canadian speakers shed light on the roles of Prime Minister's Office and the Privy Council Office in the budget process. Prime Minister's Office took the initiative to set priorities for the government budget according to the political agenda of the government party and the Privy Council Office coordinates departmental submissions to ensure the priorities set for the public services as a whole were incorporated. Due to the time limits on programming, meetings with the PCO and PMO could not be arranged. But the Chinese delegation showed considerable interest in learning more about the coordinative role of the central agencies, particularly the PCO, in the budget decision-making.

### **The Budget Cycle**

Officials both at the provincial and federal levels illustrated a budget cycle with a very similar combination of steps, despite the slightly varied length and sequence of each stage. The basic procedures of a full cycle contained the following elements:

1. priority-setting by the Cabinet Committee
2. economic and fiscal updates to set out the fiscal framework based on the economic, revenue, spending and capital forecasts of independent institutions
3. pre-budget consultation conducted by parliamentary committees
4. Ministry, agency and crown corporation budget allocation and review
5. Tabling of the budget and departmental estimates in the parliament
6. Examination of public accounts and performance reports at the year end

### **Fiscal Discipline and Prudent Budgeting**

Recurring in many meetings during the study visit were discussions about trends and reform on the budgeting practice of the Canadian government in the past decade or so. The most frequently visited trend was associated with the effort of the government to maintain overall fiscal balance and develop prudent budgeting strategy. It was explained that the Canadian government has been committed to achieving balanced budget or better in the past decade in order to reverse the high debt/GDP ratio. This has been done through a combination of prudent budgeting measures such as:

- Pessimistic economic forecast when setting budget limits
- Overestimating spending and underestimating revenue when setting fiscal targets
- Extending the forecasting period to mitigate longer-term risks and uncertainties
- Risk-mitigating strategy such as contingency reserves to address economic uncertainty and emergency needs
- Centralizing government earnings through Consolidated Revenue Funds (CRF)

The prudent measures had successfully brought the government expenditures back in line with revenue and reduced the debt/GDP ratio. It was noted, however, that there was a risk in prudent budgeting once the government reached a surplus position. The continuous budgetary surplus in the past seven years posed a challenge to the integrity of the fiscal forecast. It has aroused public accusation that tremendous amounts of unused funding have been re-invested into arm length foundations and the windfall garnered through prudent budgeting hence became invisible to the public. The challenge for the budgeting, argued David Good and other presenters, would be to re-establish credibility in economic and fiscal forecasting while still maintaining fiscal balance.

### **Autonomy Transferred to Departments in Exchange for Accountability**

One of the findings from the study tour was that individual departments had enjoyed greater autonomy in planning and implementing their budgets. Spending departments are less likely required to develop and manage budgets along expenditure line items than program outcomes. Increased administrative and budget flexibility was provided to departments to encourage more effective management and delivery of programs within significantly reduced resources. In the meanwhile, the delegation was told that some government departments were converted into crown corporations or semi-government agencies in order to enhance the financial flexibility in their operations. Speakers from the federal TBS noted that, as central guardians loosened their grip on the micro-level budgeting and program information, more emphasis had been given to the development of a more effective accountability mechanism featuring periodical reporting on results achieved.

As some speakers pointed out, greater flexibility that departments enjoyed was partly the result of the endeavors of the departments to challenge the power of the Department of Finance. In the past few years, departments of super sizes were established and Prime Minister was lobbied by individual departments more frequently to counterweigh the decisions of the Department of Finance.

### **Holding the Government to Accounts: the Parliament in the Budget Process**

The delegation observed a strong political will in Canada to hold the government accountable for the use of public money. Mr. John Williams, the Chair of the House of Commons Committee on Public Accounts, shared with the delegation a vision to provide support for individual parliamentarians around the world in their endeavors to check on the government and the fight against corruption. He expressed a strong desire to engage the NPC members in the agenda of the NEAPAC, the Northeast Asian Chapter of the GOPAC that he chaired.

The delegation was informed that there was one separate committee in the federal parliament that overlooked the request for funding of each government department. However, the Public Accounts Committee was referred to as the single committee that reviewed the final accounts of all departments. The delegation was concerned that the Committee would have difficulty challenging the government expenditures in a meaningful manner because the government party was the ruling majority. The Canadian speakers validated the concern while conveying the observation that with the current situation of minority government, the opposition parties would have stronger leverage to hold the government to accounts. According to the Committee Clerk, committee members from all parties tended to downplay the partisan line and collaborate in an increasingly collegiate environment when scrutinizing government accounts.

Quite striking to the delegation is the case in BC in which the three opposition MLAs elected to the 79-seat Legislative Assembly placed an effective check on the government with the assistance of the Auditor General and highly attentive and probing media. The mass media were regarded in BC as the de-facto official opposition in the absence of a strong opposition party in the Legislative Assembly. Inspired by the case, the Chinese delegates showed advocacy for more extensive engagement of the media in the Chinese budget process given the one-party rule.

The Clerk and researcher of the Committee presented on the process to scrutinize the public accounts. It was mentioned that the Committee relied on the Auditor General's report as the basis of its examination but was free to take the liberty to hold public hearings involving senior

officials from departments or witnesses from civilian interest groups to testify during the investigation process.

### **Strengthened Role of the Auditor General**

The delegation met with Mr. Wayne Strelieff, the BC Auditor General and his staff and later a principal of the Auditor General's Office at the federal level. The focus of the meetings was to learn about the AG's roles to provide appropriate audit information for the use of the parliament in its scrutiny of government programs. As described by the presenters, the essential role of the Auditor General was to assist MPs in effectively assessing the government's performance and gain assurance that the information provided accurately reflected the results of the programs authorized by the Parliament. The Auditor General is identified as the watchdog of the government expenditures along four E's - economy in the acquisition of resources, efficiency in the use of resources, effectiveness measured through reports on its outputs and outcomes and environmental sustainability of the public programs. The Chinese delegation applauded the commitment to environmental sustainability and showed interested in promoting the environmental awareness in the Chinese budget process.

It was stressed that the independence of the Auditor General ensured meaningful check on both the behavior of spending politicians and bureaucrats in order to address inherent biases leading to inefficiency in government. Unlike the case in China, in which the Auditor General reported to the Premier, the Canadian Auditor General was appointed by the Parliament and served as a major officer of the Parliament. In this capacity, the Auditor General assisted the Committee on Public Accounts with audit reports including attest audits on financial statements, overall performance reports and studies on selected programs. In preparing these reports, the Auditor General had the statutory authority to audit any specific sector or entity at any time with no restrictions on access to any information related to public expenditures. It was emphasized that the Auditor General was required to maintain political neutrality and his reports as factual findings were immune from challenges from the political perspective.

It was noted that, in general, the books of all government departments, agencies and Crown Corporations were subject to the examination of the Auditor General, despite the exception with certain government entities such as Bank of Canada, which was audited by private auditing firms. In response to the question of the delegation regarding the rationale of allowing these exceptions, clarifications were provided that these exceptions were very rare and unique and should be explicitly specified in the Law.

### **Budget Process in the Minority Government Situation**

One of the major observations of the delegation was that the unusual minority situation at the federal level increased the ability of the opposition parties in the Parliament to make their voices heard in the budgeting process. Budgeting experts explained that by joining forces, opposition parties could credibly subject a minority government to a confidence crisis and force it to step down from power.

However, it was pointed out that the reality became more complicated when various political considerations came into play. In the House decision on the most recent government budget, MPs from the Conservative Party chose to abstain collectively when they could defeat the budget in alliance with other opposition parties. When the delegation sought the justification to do so,

Mr. John Williams, who was also a Conservative MP, responded that the intention was to avoid another election in a very short period, which would not be tolerated by the Canadian public.

### **Citizen Engagement and Participatory Budgeting**

The Chinese delegation became aware that individual citizens were informed and engaged at very early stage of the budget process. They took note that, in both BC and Ottawa, pre-budget consultation was held in every fall to solicit public debate and inputs after the “Economic and Fiscal Update” document was tabled at the Parliament. The Ministers and Department of Finance officials held a series of consultation meetings with various stakeholders and interest groups outside government and the Committee held public hearings calling upon various witnesses to testify before the committee.

It was also mentioned that the presentation of budget and estimates in Parliament was also televised nationally and widely reported in the media. The delegation was informed that almost all budgeting documents ranging from estimates to auditing reports were made available online. The delegates were particularly interested in the Budget Transparency and Accountability Act of BC, which made consultation and free access to information statutory requirement for government in making budgeting decisions. Among themselves, the Chinese delegates were impressed with the transparency of the Canadian budget process and expressed the desire to open up the budgeting process in China.

### **Partnership with the Private Sector**

The delegation observed that the private sector was engaged through the budget process. For example, the Department of Finance conducted surveys among private sector companies in order to make accurate economic forecast and integrated the data of private forecasting institutions into its annual economic and fiscal updates. During the pre-budget consultation conducted by the Parliament, interest groups and private sectors are invited to testify before parliamentary committees. The Auditor General both in BC and at the federal level have required Crown Corporations to follow the GAAP in preparing their financial statements. It encouraged government departments to adopt norms and standards of corporate management, such as accrual accounting, to ensure accurate measurement of efficiency in their program delivery. The Chinese budgeting managers recognized the growing partnership between the public/private sectors in the Canadian budget process but showed a slight degree of concern about the potential challenge that would be hence posed to the autonomy of the government.

### **Penalty and Incentive Mechanisms**

The delegation showed a strong interest in the policy incentives set by the BC province for departments and crown corporations to pursue fiscal targets. Two innovative measures as provided in the legislation of the province include:

- 20% holdback on Cabinet Minister’s salary returned only on the condition of the budget being met.
- Performance-linked incentives for senior bureaucrats

Unlike the case of BC, the delegation found no compulsory penalties/incentives established for executives of the federal-level departments or crown corporations that miss/maintain fiscal balance. The Auditor General was free to speak out against financial mismanagement in audit reports but she did not have the power to enforce penalties on Cabinet Ministers. Although

parliamentary committees may hold hearings to seek clarifications or corrective actions from senior department officials, they do not have the power to impose penalty on ministers for their failure to meet fiscal targets. However, with the involvement of media and public pressure, the disgrace inflicted on the Cabinet minister who disappointed the taxpayers would be politically costly.

## **Lessons Learned from the Organizing of the Study Tour**

### **PROGRAM EVALUATION**

The programming of the study tour was regarded as highly successful by the Chinese participants during the debrief session. They perceived all programmed activities as focused, informative and helpful. Since this study tour is the first in-Canada activity implemented under the CCLCP Project, the successful delivery of the activity is considered as crucial to the promotion of credibility and reputation of the Project and the CEA among the Chinese project beneficiaries. The success in program delivery is attributed to the joint effort of the project staff and the delegation to streamline all details of programming, and also to some innovative methods adopted in the course of preparation. The following are some important lessons learned from the programming perspective.

#### **Preparation and Support of the Delegation**

First and foremost, it has to be stressed that the delegation showed tremendous consideration and support to the organizing effort of the Project staff. A detailed and clear outline of interest was sent by the delegation at the outset to enable the Project staff to put together a focused program with the inputs of appropriate experts. Fair gender representation was ensured upon the request of the CEA, with three women invited to join the team. Many delegates read through the briefing materials before departure and built initial conceptual knowledge about the Canadian political system and budget process, despite their intense workload with the NPC plenary session right before the study visit. Throughout the visit, it was observed that the delegates participated actively in discussions with Canadian presenters and often brought forward questions and inputs of an exceptional quality. All these indicate serious preparation effort and strong motivation to learn and think.

#### **Representation of Provincial Legislatures**

The extension of the study visit to the West Coast province of British Columbia proved successful. Not only did the program in Victoria expose the delegation to some distinct experiences of BC varying from Ottawa and, in some cases, from the rest of Canada, it also helped nurture initial networking with the BC parliament for the Project and the Centre in the long term. Vancouver is currently the only point of connection in Canada for international flight between Beijing and any Canadian destination. Due to the vicinity of its location, the Province of BC is a natural choice as an element to be integrated into the itinerary of most study tours in Canada from the pure cost-saving perspective.

#### **Selection of Presenters**

The delegation was highly satisfied with all arrangements made for them. They indicated that the meetings programmed were informative, relevant and comprehensive – the presentations cover all key issue areas of interest to the delegation. It was the general feeling among the delegates

that most Canadian speakers were experienced and knowledgeable enough to shed substantial insight into the technical details of the subject matters and address questions with a great degree of clarity and details. There was a shared feeling that, had it not been for stringent time constraints, the arrangement of a meeting with the Privy Council Office would have helped to complete the illustration of the whole budget process, given the important role of the Privy Council Office in setting priorities for government spending. This area will be taken into consideration in future programming with Budget Affairs Commission, particularly in the planned international seminar on budget process later this year.

### **Contribution of Specialists**

As mentioned above, an in-depth research was commissioned by the Parliamentary Centre in advance on the subject matter identified by the delegation. David Good was hired to contribute to program delivery with his tremendous expertise and qualifications in budgeting. The paper he presented for the delegation at the outset of the trip helped provided an in-depth and comprehensive analysis on the dynamics of the budget-making of the Canadian government. It set out the framework and key issues that linked the topics of all subsequent discussions with officials from various stakeholders in budgeting. The delegation spoke greatly favorably of David Good's contribution as an index tool that helped them conceptualize the budget process. In the long term, the paper could also become an important part of the Project's knowledge base and backbone of any future publications on the subject matter.

The benefits of hiring high-caliber specialists to contribute through writing discussions paper and providing orientation are particularly applicable to study visits for parliamentary staff. This was confirmed recently by the Research Office of the NPC, who requested a session of a similar nature during their visit to Canada in mid-June.

### **Meeting Documentation**

The delegation spoke highly of the supporting documentation of the meetings. They were impressed by the quality of the briefing material circulated to them prior to the visit, particularly an in-depth paper coming out of the research commissioned by the Centre on the Canadian budget process. Those delegates who got a chance to read through the documents before departure indicated that the in-depth analysis that the paper presented on the Canadian budget system made discussions with presenters more oriented and focused.

The delegation attained a good wealth of ready-made tools, templates and blueprints from the Canadian speakers. They were provided with several reports released by the Office of the Auditor General of British Columbia, ranging from attest audit of government financial statements to study on specific government programs of public concern. From the federal Treasury Board Secretariat, they obtained the budget and some sample departmental estimates of the current fiscal year. These documents could serve as practical tools and templates that assist Chinese budgeting managers in improving budget planning and review in their day-to-day operation.

## **LOGISTICAL SUPPORT**

The delegation was generally satisfied with the logistical arrangements. They felt all arrangements of accommodations and transportation were considerate, convenient and comfortable. Small details such as the provision of toothpaste and brushes as a courtesy at their

hotels of stay were appreciated. At the same time, concerns about a few issues related to logistical services arose during the study visit, prompting the need to make adjustments or accommodations in future programming to ensure the full motivation of our NPC partners. Some of these adjustments may require the engagement of CIDA.

### **Demand for Flexibility in Per Diem Rates and Airfare Restrictions**

Some concerns were brought up by the delegation in a casual conversation about the level of per diem rate and airfare restrictions set for trainees of study tours. Not as a complaint, the Coordinator of the delegation mentioned that the per diem provided by the Project is lower than the NPC rate of per diem for international missions. It was also mentioned that Chinese officials ranking above the DG level are entitled to the executive class when traveling on international flights, in contrast to the economy class restriction of by the Project. He requested that the Centre make accommodation when making arrangements for future study visits for the NPC.

Tim Feng responded that the per diem rate for the delegation is set by the TBS rigidly and applies to all travel arrangements funded by the Canadian government. There is little room for maneuvering on the per diem rates. But the Centre would take into consideration the airfare standard of the Chinese government and attempt to obtain the CIDA approval for the upgrading of the international airfare for senior NPC officials.

### **Monitoring of the Visa Application**

Finally, an important lesson learned from the study visit is that a risk-mitigating strategy would need to be developed in light of the complexity of the visa application procedure. In the case of this visit, the delegation submitted their visa application to the Canadian Embassy in Beijing almost two weeks ahead of their departure date, which had been indicated by the Embassy official as a safe time window for processing. However, the delegation did not get their visas until several hours before the scheduled departure of their flight, which caused considerable stress and concern on both the Chinese and Canadian sides.

The delegation reported to the Centre its worry about the slow processing of the visa applications four days before the date of their departure. The Project Officer attempted to request assistance from CIDA but the CIDA project officer was reluctant to intervene because of the sensitive and complex nature of the visa decision-making of the Embassy. It is important that in all future study visits, the visa status should be monitored closely from the beginning and when any uncertainty is foreseen, the Foreign Affairs Bureau as our counterpart should be alerted and asked for assistance. Higher level of managers at the Centre should also be informed and engaged so that they can make attempts to exert influence at a higher level to expedite the process.