

Significance and Concept of Budget in Public Administration

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Abstract

The budget in its elementary form had been part of almost all monarchies of the history. There have been written documents regarding the existence of the state treasury, accountants and auditors who were employed by the monarchs to protect the royal treasury. The modern democracies have the legislatures playing an important role in the managing of public finances. The taxes that are collected and the revenues that are generated by the government through several means are to be used for the development and welfare of the society. The emergence of the Welfare State made it important that the government money is being judiciously used to better the living conditions of society in general and the marginalized sections in particular.

Keywords: Public Financial Administration, Economic management, Concept of Budget, Development Economics

1.0 INTRODUCTION

The public budgets are different from other forms of budgets in many ways; here the voters delegate the power of spending their money to the politicians or the elected representatives. Now having understood the concept of budget in the last article, let us understand the different kinds of budget that are there in the public financial management:

- **Balanced Budget:** As suggested by the name a balanced budget is that which has no deficit or surplus. The revenues coming are equal to the expenditures.
- **Revenue Budget:** It is just the details of the revenue received by the government through taxes and other sources and the expenditure that is met through it.
- **Performance Budget:** This type of budget is mostly used by the organizations and ministries involved in the developmental activities.

This process of budgeting, takes into account the end result or the performance of the developmental program thus insuring cost effective and efficient planning. With the increasing developmental challenges and awareness regarding the usage of tax payer's money, new methods of budgeting are required of which the performance based budgeting has emerged as a transparent and accountable method. It relies on three aspects of understanding of the final outcome, the strategies formulated to reach those final outcomes and the specific activities that were carried out to achieve those outcomes. With a very detailed and objective analysis, this budgeting process is very result oriented in its approach.

- **Zero based budget:** Zero based budgeting has its clear advantage when the limited resources are to be allotted carefully and objectively. It is quite flexible in nature and relies on rational methods, systematic evaluation to reallocate resources and justify the usage of funds. It starts from a zero base unlike traditional budgets where incremental approach is used. Here, the needs and costs of every function of the organization are taken into consideration for the next year's budget. So the budget is futuristic and may or may not be equal or more from the last year's budget as traditionally calculated.

The budgets in the parliamentary kind of system similar to what exists in a country like India become a tool of political negotiations where the budgeting powers are delegated to the Finance Minister of the country. In a single party government, the entire party shares the same views regarding the spending of the resources however; the disagreement arises when individual members may differ on the cost of the distributive policies and would want the government funds to be diverted to their respective electoral constituencies. In a coalition government, the differing opinions are tackled through compromise and contracts approach where the coalition parties keep the check on the budget process ensuring that it lies within the boundaries of the agreed contract. The infamous fallout between the ruling UPA and the

Trinamool Congress over the Railway Budget last year is worth citing in reference to the current discussion.

In the presidential kind of system too, the executive plays a somewhat similar process. A significant change that happened in US regarding the budget process was the Budget Enforcement Act passed in 1990s under the Bush administration, which protected the budgetary parameters against later modifications once cleared in the budget summit between the president and the legislature. The budget process in different systems of government may vary but they are all aligned to achieve the relevant economic and social goals of that country. With increasing globalization and interdependent economies, several external considerations also come into play when the budgets are designed. We shall learn about the budget process in the next section.

2.0 BUDGETARY PROCESS IN DIFFERENT COUNTRIES

I have read earlier regarding the relevance of budget in the economies of the nations. Apart from the prioritization and allocation of resources and being an account of political compromises, victory and losses, budgets play one another important role. They are a mirror into the future; they create a picture of what the future consequences of current actions shall be, desirable or miserable. Budgets therefore have to be well thought out plans which should not aim at only short term benefits but also look at long term gains. According to author Aaron B. Wildavsky, in the book, *Budgeting: A comparative theory of budgeting processes*, a very pertinent question which arises are:

- Who will plan the budgetary process, a central authority, decentralized or delegated authority or non-centralized independent authorities
- How will the planning occur, through a central body which will form regulations or a price system acting through non-centralized units

The budgeting process has a lot to do with the available resources and wealth of a country. If the country is poor but the environmental conditions are stable and certain, the most commonly found budgeting method is revenue budgeting. When the wealth is absent i.e. a country is poor as well as the environment is uncertain, the budgeting process is that of repetitive budgeting. Repetitive budgeting is a common phenomenon for the poor countries where the budgeting happens several times over the year due to changing scenarios, limited funds and misplaced strategies.

The rich countries which have certain environments go for incremental budgeting and in case there are uncertainties, the incremental budget is alternated with repetitive budget. The difference in the budgeting process amongst different nations also happens because of their respective taxing system and the how and choice of programs they spend money on. So while, Japan has an electoral party, the Liberal Democratic Party which plays an important role in the budgeting process, France has a mixed Presidential-Parliamentary system, the USA has an independent legislature and executive and the cabinet in UK is responsible for important decisions regarding revenues, taxes and expenditure.

In the USA, The Office of Management and Budget steer the President in realizing the budget goals. The respective government agencies put their request for funds which are reviewed. The House Appropriations Committee decides how much money should be given for each purpose however the final deciding power lies with the Congress. After the budget reforms of 1974, many sub committees gave up their guardianship and the role played by them was taken over by the higher House bodies. In India, the Union Budget is presented by the Finance Minister every year in February. The process begins with a budget speech in the parliament which has two parts, one outlining the general economic scenario and the second part which contains details of the proposed taxations for the next financial year. A general discussion on the budget happens after few days of its presentation and a voting happens on the request for grants.

An important aspect of this process is the Cut Motions which allows the members of the upper house to question the policies and programs of the government where the money is being spent. These cut motions are of three types namely:

- Policy cut where the amount for demand is reduced by a meager Rs1 which also implies that the mover disapproves of the policy
- Economic cut where the demand is reduced by a specific sum
- Token cut is when the demand amount is reduced by Rs.100

The Parliamentary Committee plays a significant role only when the limited time of the parliament leads to the Guillotine situation where not all demands are discussed. In this situation the department related standing committees and financial committees undertake the task to scrutinize in details, the government spending, expenditures and performance. The budgetary process in UK is lengthy too, where the departments submit their funding requests or Main Supply Estimates to the HM or the Her Majesty's Treasury. The government then releases a consolidated document called the Central Government Supply Estimates for the year. Agencies have respective oversight committee in parliament which oversees the changes if any made in the requests submitted. The UK parliament does not take a decision upon the new budget until summer and therefore the funding for the respective agencies continue up until the new budget is enacted.

In the rapidly developing economy like China, the central agency that control budget is Ministry of Finance (MoF). The National Auditing Committee audits the MoF and the most common discrepancy cited by them was the over allocation than the budgeted amount or not allocating the sum mentioned in the budget requests. The Chinese legislature the National People's Congress lacks any substantial control over the budgeting process which is often cited as the root of the budgetary problems in China. It would be interesting to learn more about the budget processes of other nations as well however, it lies beyond the scope of this particular article. However, it is recommended to the readers and students that they try to explore the budgetary process of nations like France and Germany and the contrasting countries like Somalia and Zimbabwe in Africa, Afghanistan as well as Pakistan, Bangladesh and Thailand in Asia.

3.0 IMPORTANCE OF AUDIT IN PUBLIC SECTOR ORGANIZATIONS

Audit is an instrument, a tool of financial control, which is employed by the public or private sector or an individual to safeguard itself against fraud, extravagance and more importantly to bring credibility to the audited. According to International Organization of Supreme Audit Institutions audit is defined as "Evaluation or examination of systems, operations and activities of a specific entity, to ascertain they are executed or they function within the framework of certain budget, objectives, rules and requirements." This is a modern definition of audit in Public sector and does not constrict itself with only cash audit, which was the case originally.

For sound and effective functioning of government and to ascertain that the benefit of public funds being used, reach the lowest strata of society and to every individual, audit is an indispensable tool. It helps secure accountability of the executive to the Parliament and towards the public in general. The legislature can exercise control over the executives and verify that the public resources have been utilized responsibly, for the purpose intended and funds raised through various sources like taxes reach government fully. There are a few International bodies which recommends agreed upon auditing practices, reports and requirements. They are:

1. INTOSAI: International Organization of Supreme Audit Institutions
2. IFAC: International Federation of Accountants
3. IGAE: Intervencion General de la Administracion del Estado

In accordance with the target objective several kinds of audit can be defined in Public Sector.

1. Financial Audit: Intended to verify financial statements, accounts and balances as per generally accepted accounting principles. Also, to verify money expended has been applied to the same purpose and premise for which it was obtained and within the boundaries of acceptable vagaries.
2. Audit of Legality Concordance: Intended to verify all transactions, processes are in full accordance with the law of the land and do not in any case harm or influence an organization or an individual for its own means.
3. Audit of efficacy or of programs: Intends to verify the result obtained from a plan for which money was employed is in conformance with the objective for which program was made.
4. Audit of Economy and efficiency: Intends to verify the way resources have been managed. Whether resources have been acquired at minimum cost and employed for maximum benefit.
5. Audit of Systems and Procedures: It is important for every organization which follows rules and laid down principles to verify its system and processes for improvement and quality conformance.

Financial and Audit of Legality concordance were originally grouped together to form Audit of Regularity and rest other audits were termed as Operational Audit. After audit is complete it is necessary to file a report which has adequate representation of facts and figures, adequate content, adequate preparation, adequate opinion for the target audience to understand it better and enough publicity for the report. Audit must be treated as an instrument for exercising control over processes, systems, finances and individuals to make governments and governing bodies more responsible towards the public and its resources, but it cannot be considered as an end unto itself.

3.1 Administrative Law, Regulations and Reforms

Governments delegate execution of plans, programs and policies to a vast network of agencies aiding it at different levels. These agencies can be anything, division of a government, boards, commissions, special administrative bodies to look into specific issues, departments or divisions. These agencies have varied interests and work profiles; they can be public health departments, commission to work for economically downtrodden minorities, primary education, public welfare, electricity boards etc. It is important to understand these agencies are formed within the framework of constitution and governed by the law of the land.

Administrative law hence is a body of law which governs the creation, working and dissolution of such agencies. It is important to know that most of these agencies have their own set of processes and operational systems which is generally not codified, but becomes important for an individual or an organization to follow them for any assistance required from them. The decisions and processes of any agency can be reviewed by a court of Justice. Court may set aside an administrative decision if it is unreasonable, arbitrary, and capricious, in case of legitimate expectation and proportionality. It is important to note here that as the number of agencies doing varied works became larger in the 20th century so did the administrative law. It went on becoming more complex in nature and larger in number. In other words, the activities of administrative agencies have become cumbersome, expensive, and redundant and often represent enormous waste of time and effort with little result to show. It is further burdened by conflicting decisions by court and inability of common man to get any work done through them. In theory the system of checks and balances work out quite well, where the executives execute the plans and the law formed by parliament or the congress and judiciary decides issues arising that out of execution. But, it is not that simple if viewed practically and in the long run.

Further push to reforms was given by two important things happening in the later part of the 20th Century. Globalization and advances in technology. Globalization tipped the scales to make administrative bodies more deregularized and transparent in their working. It went on further to pave way, little at first and present but more so later, for a globally accepted administrative law and bodies. As more and more effort was towards economic well-being, removal of bottlenecks from governance was found imperative. Introspection in Administrative law was required and thus redundant and wasteful practices were done away with. Technology on the other hand made the processes more streamlined within the workings of such bodies. It also made such agencies more approachable and accessible to people in general. This in turn has made personnel accountable and efficient. It is important to change with time. As new things are discovered and new inventions made, so archaic rules and processes needs to be removed. Processes needs to be galvanized and made more pro people, then only there would be better management of resources and better planning for a healthy society.

4.0 DEVELOPMENT ADMINISTRATION

The traditional approach towards administration has been limited in its scope and premise, the core of which was strict adherence to laid down rules and hierarchy. In essence it has limited the role administration to that of a fire fighter or overseer of law and order in the comfort of laid down principals. While, nothing is wrong in this approach, if society is utopian but, in a more practical sense it causes problems. Since, bureaucracy is that arm of government which is responsible for executing plans and allocating resources at the grassroots, it is imperative that they take some risks and be innovative in approach, especially more so when the nation is a developing one.

Development Administration is about projects, programs, policies and ideas which are focused at development of a nation, with the point of view of socio-economic and socio-political development of

society in general, carried out by talented and skilled bureaucrats. A model of Development Administration must contain the following points.

- It should reject status quo and be directed towards change and more so towards results. It is result oriented at its core and every development function should have a defined objective.
- Planning is essential to decide the framework of resources and time to be allotted for a development function.
- Innovation. It is dynamic in approach and encourages new and better ways to achieve objectives.
- It should focus on planning for the people as well as with the people. It is people-centered, must empower society as a whole and not product or profit-centered.

The concept of Development Administration should be understood using two concepts Administration of Development and administrative Development. Administration of Development: Resources are scarce, material or human thus the need to make optimum utilization of available resources and making new means for development gathers importance. So administration of development involves following objectives:

- Innovation at all levels of planning.
- Importance to the development at grassroots level.
- Development of human capital as a resource.
- Politics and administration must go hand in hand to establish rapid change in society and bring about just and distinct social order.
- Freedom of administrative machinery to express ideas, views for the most effective and efficient use of natural resources.

Administrative Development: For effective Development Administration the structure of Administration itself must be empowered, large and capable enough to sustain the pressures by the developmental activities. In simpler words it means to develop administrative health by rationalizing and institution building and bringing about a radical change in the administrative framework, from the traditionalist approach, to handle and create socio-economic and political development and social change. In essence the objective of Administrative development can be summarized as:

- Building decision making capabilities.
- Development of skill and specialization to tackle complex issues in the personnel.
- Giving importance to training, effective use of technology to bring about change in Administrative approach.
- Increasing administrative capacity, capabilities, removing corruption and bringing in more accountability.
- Creating leaders out of bureaucrats for promotion of development initiatives.

To achieve development goals, it is necessary to that there is proper planning, optimum utilization of resources, skilled personnel, accountability in actions and words, self-reliance and emphasis on technology. At the same time, I need to develop the bureaucracy, innovativeness, build capabilities, integrity and decentralized decision making. So, Administrative development and Administration of Development both are important for the effective development of Society.

4.1 Comparative Public Administration

Comparative public administration focuses on Public Administration as a field of study and research rather simple execution of tasks. Haroon A. Khan defined the Comparative Public administration as a quest for searching patterns and regularities in administrative behavior and action and to characterize them in present day nation states. It is interesting to note why and how Public Administration has gained a place in the field of study. Woodrow Wilson is credited for his writing *The Study of Administration* and perhaps this was a starting point in the United States, in other countries like India, Germany Public Administration was known long back owing to influences of Arthashashtra and Kameralwissenschaft. Later half of twentieth century saw many improvements and bureaucratic internationalization between European countries in reference to Euro-zone and also to all other countries of the world with transnational organizations like World Bank, Interpol and International Court of Justice. These changes which came about after 1960s were basically administrative reforms implemented by the

legislative to make administration more decentralized, accountable and efficient. But, on the other hand some other reforms were pushed aimed at giving more control to policy makers of the bureaucracy while avoiding all the responsibilities. It was imperative to look how these two different situations affected Administration as a whole in different countries. The best way to look at this was through scientific study of comparative public administration. It is also a way to identify best practices in Public Administration so as to achieve maximum result most efficiently and to build a solid organizational structure and processes.

It will be wise to understand here that simply importing those practices which have served well in other countries will not suffice, since people in general are different and they react different to same stimuli. So, what works best in one country might not work at all in other countries. Most commonly used model for Comparative study has been to compare and contrast western and non-western methods and styles. This model has created dualistic concepts like diffused - specific, universalistic - particularistic, etc and often tends to favor one end of spectrum towards another. But, these do not help in study of development or how to increase quality of life in third world countries. The other and better method used is called description. It is more suitable for cross-cultural analysis as it relies on facts of a situation and get at the all-important aspect of context. But, it too cannot be used directly as a solution to problems faced by other societies. All the other frameworks deal with certain units of analysis or tools which help in gathering and categorizing facts efficiently they are:

- Individuals - the study of behaviors of officials, leaders and elites
- Groups - the study of social movements of parties and interest groups
- Organizations - the study of functions and capacities of cities and regions
- Bureaucracy - the study of the efficacy and performance of whole government executive branch

Clearly within the last decade there has been a very significant rise in CPA as results obtained through it are if nothing, interesting. Many international organizations have come forward and joined their hands in CPA. For example, the international Public Management Network includes individuals from many countries and they publish international public management journal to provide a forum for sharing ideas, concepts and results of research and thinking about alternative approaches to problem solving and decision making in public sector.

4.2 The Future of Public Administration

Future belongs to Flexible Public Sector rather than Machine Bureaucracies. As the world around us is changing with concomitant changes in politics, business, economics, and society, the field of public administration cannot be aloof from the need to innovate and change. As the public sector in many developed countries feels the need to move beyond the static and machine bureaucratic paradigm, the public sector in the third world and the developing countries is also in the throes of adapting to the broader changes happening in society. With the increased awareness among the citizenry and the rapid spread of information along with use of technology and social media, the public sector in the west and the east has to wake up to the new realities and cannot be an ostrich or a fossil among the nimble and agile private sector. This is the key theme of this article that looks at the future of public administration around the world in an era of rapid change. There cannot be a more compelling case for proactive public sector rather than a reactive public sector as the future catches them and they can only survive by adapting to the future.

4.2.1 Need for Change and Innovation

The Great Recession of 2008 put paid hopes to the public sector in the west as the bureaucrats were suddenly faced with shrinking budgets, downsizing, and a general tendency to squeeze the public sector to get “more bang for the buck”. This meant that the public sector in the west had to innovate to cope with the broader changes in the countries. Innovation is often defined as the ability to create something new and find newer ways of doing things. This means that the public sector in the west had to find innovative ways to save money, cut down on costs, and generate more returns for their investments. On the other hand, the public sector in the east had to contend with radical changes as the long-suffering masses who were frustrated with red tape and bureaucrats finally summoned the courage to use technology and protest to fight against them. Further, many governments in the developing world faced pressure to divest their stakes in the public sector and make the bureaucrats more accountable as they

needed to generate funds for the other items on their agendas. The net result of all these pressures meant that the public sector in the east had to change fast as otherwise they would be faced with disruption and obsolescence.

4.2.2 Ways to Innovate and Change

The ways in which the public sector can innovate include using technology more proactively, collaborating and communicating within and with the external world, adopting a more humane approach to administration and attending to the grievances of the citizenry, and most importantly “walking the talk” which meant that they had to not only declare their intent but also have to act accordingly. In other words, merely having a gazette is not enough and the public servants have to follow it in the spirit of the law as well as the letter of the law. As for using technology and social media, the public sector and the public managers are gradually taking to IT to communicate and collaborate among themselves as well as with the external world. The other key imperative here is that public sector managers must not initiate a change and then give up midway because of resistance from vested interests and those with hidden agendas. Perhaps the biggest challenge facing public sector managers is that they plan to work but not work to the plan.

4.2.3 Some Recent Trends in Public Administration

In the United States, there has been a lot of criticism on the bureaucrats who were seen as holding up approvals and sanctions to the projects initiated by the private sector. Further, with outsourcing and Offshoring of many routine activities as well as the use of contractors to get the job done, the public sector in the United States has been forced to embrace innovation and change. As many experts aver, the government of the future is simpler, leaner, and nimbler rather than the behemoths that they are at the moment. The outcry against big government has reached such a crescendo that the Defense Department in the United States has more or less outsourced almost all peripheral activities and has only retained its core staff for the managerial and the combat functions. This example illustrates how the public sector in the United States is operating in the context of the changing governmental landscape.

4.2.4 The Government of the Future

The first item for the government of the future would be to remove the opaqueness and the secrecy surrounding its activities and instead embrace accountability and transparency as the motto. For instance, the government of the future is one where the citizenry is made aware of the decisions taken by it rather than hiding under archaic laws and regulations in the name of confidentiality. Apart from this, the government of the future is one that is proactive instead of reactive where it anticipates the changing trends and responds accordingly instead of knee jerk reactions to events and incidents. This means that the public servants have to be responsive to all the stakeholders including their superiors, the elected representatives, and most importantly the citizenry instead of favoring a particular section over the other. In other words, the government of the future would be responsive instead of secretive and accountable instead of resorting to blame game, and would be transparent instead of being opaque.

5.0 CONCLUSION

The process of budgets fulfills important functions in the economy of the nation. They act as a means to carry out several objectives of the public organization. Some of the important roles of budget in the national economy are: prioritization of the allocation of the public resources, achieving policy goals through prudent financial planning, establishing accountability regarding the usage of the tax payer's money and financial controls also ensure compliance to rules and increase in efficiency. In some countries, the executive part of the government also plays an important part regarding the revenues and expenditures of the government and the legislative is reduced to just an approving and reviewing authority, e.g. in UK where the budget process is primarily dominated by the executive (the House of Commons). A more balanced approach of distributing power is practiced in the USA where the legislature can review and make changes to the budget presented by the President and the President finally approves it after satisfactory checks and balances are concluded.

The dominance of executive or legislature in the budgeting process is a matter of debate as many consider the legislative to be an obstacle in the fast paced globalized economy where foreign direct investment and monetary funding from organizations like IMF and World Bank is of crucial importance to several democracies. There are several measures suggested to expedite the decision making process from fixing the term of the legislatures, introducing citizen panels, attaching funding power at local levels to bringing in two-year budgetary cycle and special legislation regarding expenditure management.

The government expenditure is funded by a common pool of tax payer's money and the policies that are formed with this money are further used to fund projects. The catch here lies in the fact that the people who actually are paying for these policies are the larger group while the people who benefit from these policies might be a much smaller group, which translates that one might not be enjoying the benefits for which one is paying money. Such scenario leads to an excessive spending of public money on policies which are not beneficial to the society as a whole. Such situations are prevalent in democracies which are multi-lingual, multi-ethnic and divided on the basis of regions, religions and other factors.

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