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AN INVESTIGATION OF RECENT DEVELOPMENTS
IN GOVERNMENT BUDGETING WITH PARTICULAR
REFERENCE TO BRITISH LOCAL GOVERNMENT

By

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A thesis submitted for the
degree of Doctor of Philosophy

Management Centre
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September 1978

To my father

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in Government Budgeting with Particular
Reference to British Local Government

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SYNOPSIS

The major objective which this study seeks to achieve is the analysis of recent developments in budgeting in British local government. It is particularly concerned with analysis of the use of programme budgeting and corporate planning approaches by British local authorities.

Through a comprehensive review of the literature the weaknesses and shortcomings of the traditional budgetary approach were evaluated and the new concepts of programme budgeting and corporate planning were critically examined. Special attention was paid to the current practice in both central and local government in Great Britain which differs from the approach adopted in America.

Investigation of current budgetary trends in British local government was based upon a postal questionnaire sent to a random sample of local authorities. The results are analysed in the light of specific hypotheses to assess the effects of the new budgetary changes in local authorities and to examine their attitude toward programme budgeting and corporate planning.

The empirical results support the argument that the traditional approach of budgeting is not fully appropriate for effective resource allocation and that changes should be considered. They also indicate that the new concepts, i.e. programme budgeting and corporate planning, have potential for improving the process of resource allocation.

A significant number of respondents had developed new budgetary procedures. However, the number who introduced major changes, classified as a complete system of programme budgeting or corporate planning, were few. This was attributed mainly to the fact that the development of new budgetary procedures requires extra resources which many, particularly the small authorities, cannot afford.

The results emphasised the importance of the political factor in implementing an effective system of budgeting. The support of the authority's members in co-operation with the officers is the corner stone for the development of any successful budgetary system.

Key Words: Budgeting, Local Government, U.K., Corporate Planning, Programme Budgeting.

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CHAPTER I
INTRODUCTION

1.1 STATEMENT OF THE PROBLEM

The increasing complexity of modern life has changed the traditional role of the government from mainly maintaining law and order and national security to a far greater involvement and responsibility in the economic and social life of the country. As the size and scope of their activities continue to grow, governments need better ways to decide what they should do, how they should do it, and how much it would cost. As a result, the budget has become not just a revenue and expenditure document for accountability purposes, but a very significant instrument for the allocation of the limited resources available to any government.

The budget, as an administrative device, is important as an information input in the decision-making process. Misallocation of resources may occur as a result of inadequate and misleading information. Hence, it is imperative to define, as specifically and accurately as possible, overall objectives and to identify priorities between competing claims in order to obtain value for money.

The growing importance of modern government and the increasing complexity of its functions have made the traditional budget approach inadequate primarily because it does not provide the decision maker with the necessary and relevant information to make the appropriate policies and decisions.

The traditional budget approach emphasises the accountability function and pays little attention to the very essential functions of planning and management. In other words, the traditional budget generally has two basic purposes. First, it is considered as a legal document in which each department, agency or unit in the government is

authorised to spend a specific amount of money over a certain period, normally one year, according to the government's laws and regulations. Secondly, it has to ensure that public funds are protected against fraud or theft and that the money has been spent according to its original allocation. In this context, the outcomes of a certain input are, to a great extent, invariably neglected. Also, there is little emphasis on the ways and procedures of how to carry out a specific function.

In response to these shortcomings in the traditional approach, attempts have been made to overcome them. Such attempts resulted in the development of new budgetary systems such as performance budgeting and programme budgeting. The fundamental objective of such efforts is to make the government budget a more effective tool for resource allocation. A major change in the traditional structure of the budget has been the classification of its items on an output basis rather than an input basis with a clear definition of the objectives to be obtained from the expenditure.

There are, however, two basic problems in applying the new budgetary concept to government activities. First, government objectives are usually very difficult to define. In some cases, it is not hard to set the overall objective, but it gets more difficult when dealing with sub-objectives. Secondly, output in most cases is very difficult, if not impossible, to measure because of the nature of government activities which differ completely from the aim and nature of business activities where indicators of success are relatively easier to determine.

Despite these difficulties, programme budgeting has been developed with considerable success in some organisations. The striking example is the U.S. Department of Defense. This successful experience indicates, no doubt, that programme budgeting, with careful and sufficient preparation, could be very effective in improving the allocation decisions.

In Great Britain, the need to utilise national resources with the maximum efficiency is very apparent. The government's share in the G.N.P. has increased dramatically over the last few decades (see Table 2.1). The obvious effect has been increased taxes, nationally and locally, to meet the fast growing public expenditure. The tax-payer, in return, expects more and better services from both central and local government.

In response to such pressure, the government has been trying to improve its allocation decisions by seeking more and better information in order to exert a more effective planning and control over public expenditure. It has been realised that public expenditure planning should be both on a long-term basis, as well as short-term, and also cover the whole of the public sector to be able to identify priorities and trade-offs between programmes. The efforts of central and local government toward a more effective budgetary system are reviewed and critically discussed later in this study.

1.2 OBJECTIVE AND SCOPE OF THE STUDY

This study aims to accomplish one major objective, that of the empirical investigation of the state of budgetary development in British local government. It does so on the basis of a comprehensive review of the literature on the new budgetary developments in the United Kingdom and the United States. The study proceeds with an empirical investigation which was carried out by a postal questionnaire sent to a number of local authorities supported by a few personal visits to selected authorities. The main purpose was to seek the opinion and views of those people who are actually involved in the budgetary process in local government and to determine their attitudes toward the new budgetary developments, such as programme budgeting and corporate planning. The literature review was essential to explore the subject and was used as a basis for the survey.

The study was concerned to review and investigate the new developments in public sector budgeting with particular reference to British local government. The empirical investigation was restricted to local government because of the difficulty in obtaining detailed information from central government departments.

The importance of this study stems from the fact that it is, to the best of the author's knowledge, the only detailed research on the new developments and changes in the budgetary process in local government which covered the whole range of British local authorities. There is little doubt that the information obtained from this survey leads to a better understanding of the problem and an improvement of the way that the new budgetary concepts should be implemented.

1.3 RESEARCH METHODOLOGY

The method used in this study was to combine a theoretical analysis, supported by the necessary descriptive material, with an empirical investigation of the main hypotheses of the research. The theoretical analysis was based on extensive library research on the new budgetary developments, mainly programme budgeting and corporate planning, and the role of the budget in modern governments with particular emphasis on the British experience in both central and local government.

The empirical investigation, based on a postal questionnaire, covering British local government, was intended to obtain primary information on the attitude of local authorities toward the introduction of such developments.

The answers to the questionnaire were discussed and analysed in the light of a certain set of hypotheses which were generated from the review of the literature. In order to test the significance of the relationship between the various variables of the questionnaire, two

statistical techniques were used, the Chi-Square Test and the Fisher Exact Probability Test.

1.4 PLAN OF THE STUDY

This study is divided into three major parts. Part one, which includes the next two chapters, presents the theoretical material. Chapter two briefly discusses government budgeting in relation to government activities, government decision-making processes, and economic planning. Chapter three attempts to review and analyse the stages of budgetary reform from the traditional approach to the development of programme budgeting together with the recent developments following the decline of PPBS. The chapter also provides a brief description of the functions of government budgeting.

Parts two and three of this study are devoted to reviewing and critically discussing the state of budgetary developments in Great Britain. Part two deals with the theoretical aspects of the subject which was based on library research. Chapter four explores the new developments of the PESC and PAR systems as well as the use of programme budgeting in the Ministry of Defence and the Department of Education. Chapter five examines the state of budgeting in British local government. It gives a brief background to the nature and structure of the local authority and discusses in some detail the theoretical base of the corporate planning approach which has been considered by several local authorities as a possible solution to the problem of resource allocation.

Part three, which deals with the findings of the questionnaire, consists of four chapters. Chapter six introduces the questionnaire in terms of its objectives, design, limitations, hypotheses, and statistical analysis. Chapter seven assesses and analyses the findings of part one of the questionnaire. The findings of part two are discussed and analysed in chapters eight and nine. Chapter nine also includes

some concluding remarks on the findings of the questionnaire.

Finally, chapter ten completes this study by providing a summary of the work and its conclusions.

PART ONE
LITERATURE REVIEW

CHAPTER II
GOVERNMENT BUDGETING AND
ECONOMIC DEVELOPMENT PLANNING

Government budgeting and its reform has recently become a matter of great concern in many countries, particularly the highly developed ones. At the present time, a few major developments have been made in this field which are the main focus of discussion in this study. In this chapter, a brief examination, however, of three related subjects seems desirable. First, the government activities and their role in the economy of a country, secondly, the government decision making process, and thirdly, economic development planning and its relationship with budgeting.

2.1 GOVERNMENT ACTIVITIES

Broadly speaking, there are three major aims of government activities - resource allocation, economic stabilization and distribution of income.⁽¹⁾ These three functions are achieved through payment from and to the government, i.e. public expenditures, and taxes.

Due has classified government activities into four groups:

1. Allocational: ones that increase or decrease the allocation of resources to the production of various goods, particularly public goods and ones offering major externalities. These activities alter the overall mix of gross national product.
2. Efficiency: those increasing total output from given resources by more efficient use.
3. Stabilization and growth: those reducing economic instability and unemployment and increasing the potential and actual rates of economic growth.
4. Distribution: those altering the pattern of distribution of real income.⁽²⁾

(1) Richard Musgrave, The Theory of Public Finance, New York: McGraw-Hill, 1959, p.3

(2) John F. Due, Government Finance : Economics of the Public Sector, fourth edition, Homewood, Ill.: R.D. Irwin, Inc., 1969, p.14

Government activities depend on the needs and desires of the society. Having determined these needs, the economic policies can be selected to satisfy those needs and desires. A society has various objectives with relative priorities. To achieve those objectives, there are alternative means. A modern society emphasises two primary objectives, "maximisation of per capita real income, and equity in the distribution of income among the members of society."⁽³⁾ It has been realised that such objectives can not be achieved solely by the private sector.⁽⁴⁾

By increasing its activities, "government does not seek to maximize profit or utility for its own consumption. Government is moved by broader goals of social, political, and economic policy involving the entire economy."⁽⁵⁾

The tremendous expansion of government activities can be easily recognised by looking at the public expenditures and their ratio to gross national product (GNP) in some countries, developed and under-developed. It should be noted, however, that this indicator is not the best measure of the size of government activity, because part of the expenditures are transfer payments which "do not result directly in income-creating activities."⁽⁶⁾ Examples of transfer payments are social security benefits and subsidies to business.

The volume of public expenditures and their ratios to GNP is considered here as the major indicator of the size of government activities because of its significance. Sharp and Sliger have identified three basic aspects of the economic significance of public expenditures as (a) the provision of goods and services in socially desirable quantities, (b) the creation of

(3) Ibid., p.4

(4) R.D. Lee, Jr. and R.W. Johnson, Public Budgeting Systems, Baltimore: University Park Press, 1973, p.25

(5) J. Levin, "New Tools for Measuring Government", Finance and Development, vol. 12, no. 2 (June 1975), p.15

(6) A. Sharp and B. Sliger, Public Finance : An Introduction to the Study of the Public Economy, Homewood, Ill.: The Dorsey Press, 1964, p.10

income in the process of producing public goods and services, and (c) restricting individual economic freedom.⁽⁷⁾

Table 2.1 shows the volume of government expenditures, GNP, the ratios of expenditures to GNP, and expenditures per head in three countries, the United Kingdom and the United States as developed nations, and Libya as a developing country, in selected years for the purpose of comparison. There are, however, three points which should be borne in mind while reading the table. First, the figures of expenditures and GNP in the table are at market prices. The changes over time in the price level have of course inflated these amounts and made them larger than they are in real terms. To overcome this problem the percentage indicator is considered as a better measure since changes in the value of money are reflected in both size, government expenditures and gross national product. Second, a part of government expenditures, as indicated earlier, are transfer payments. Finally, the purpose of the table is not to compare between the three countries, rather, it is a comparison between selected years to reflect changes in the volume of public expenditures over time within each country.

Now, referring to the table, at first glance, the substantial increase in government expenditures in money terms and the increased ratio to GNP, can be easily recognised. This is true for the three countries. Total United Kingdom government expenditures increased more than 194 times between 1900 and 1975. The increase in expenditures per head of population over the same period was more than 143 times. Furthermore, government expenditures' share in GNP increased from 14% to 52% over the same period.

(7) Ibid., p.9

Table 2.1
Total Government Expenditures, their Ratio to
G.N.P. and expenditures per head in the U.K.
the U.S.A. and Libya

	<u>1900</u>	<u>1955</u>	<u>1970</u>	<u>1975</u>
<u>U.K.:</u>				
Total Government expenditure				
£m	280.0 ^a	6,143.0 ^a	21,595.0 ^b	54,465.0 ^b
Expenditures per head £	6.8 ^a	120.5 ^a	390.5 ^b	973.2 ^b
G.N.P. £m	1,944.0 ^a	16,784.0 ^a	50,669.0 ^b	104,235.0 ^b
% of total expenditure to G.N.P.	14.4	36.6	42.6	52.3
<u>U.S.A.:</u>				
Federal government expenditures \$m	529.0 ^c	64,570.0 ^c	208,190.0 ^c	369,066.0 ^d
Expenditures per head \$	7.0	403.6	1,024.0	1,728.3 ^d
G.N.P. \$m	N.A.	398,000.0 ^c	976,500.0 ^c	1,516,300.0 ^d
% of federal expenditure to G.N.P.		16.2	21.3	24.3
<u>LIBYA</u>				
	<u>1944</u>	<u>1958</u>		
Total government expenditures LD*m	2.0 ^e	17.0 ^e	413.0 ^g	1,547.4 ^g
Expenditures per head LD	1.6	13.0 ^f	206.5 ^h	634.0 ⁱ
G.N.P. LDm	N.A.	51.2 ^f	1,113.3 ^h	3,529.9 ⁱ
% of total expenditures to G.N.P.		33.2	37.1	43.8

* LD, Libyan Dinar, equals about \$3.37

- Sources: (a) A. Peacock and J. Wiseman, The Growth of Public Expenditure in the United Kingdom, London : George Allen & Unwin, Ltd., 1967, p.42
- (b) The Europa Yearbook: 1973, vol. 1, p.1408
 1977, vol. 1, p.1318
- (c) R. Lee and R. Johnson, Public Budgeting Systems, Baltimore, Md. : University Park Press, 1973, pp.36 & 59
- (d) The Europa Yearbook : 1977, vol. 2, p.1673
- (e) Bank of Libya, The Development of Public Finance in Libya (1944-1963), August 1965, pp.55 & 59-60

(continued)

Table 2.1 (continued)

- (f) International Bank for Reconstruction and Development, The Economic Development of Libya, Baltimore, Md. : The John Hopkins Press, 1960, p.391
- (g) Central Bank of Libya, Annual Reports of the Board of Directors : Fifteenth Report, 1970-71, pp.107-108
Nineteenth Report, 1974, p.92
- (h) Ministry of Planning, Libyan Arab Republic, National Accounts of the Libyan Arab Republic 1962-1971, Tripoli, October 1972, p.13
- (i) _____, Recent Economic Development, Tripoli, August 1976, p.45

In the United States, the increase in expenditures per head from 1900 to 1975 was more than 246 times. Also, in Libya, there was an increase of more than 48 times over only 17 years, (from 1958 to 1975) in expenditures per head, and an increase of more than 68 times in GNP over the same period. This increase within an interval of 17 years appears phenomenal even if allowance is made for the rise in prices during that period. This big increase is the result of the substantial growth of oil revenue during the last decade.

However, it is interesting to note the differences between Libya and the U.K. in this respect. Libya is perceived to be highly committed to a planned economy and the degree of private enterprise is relatively small. The U.K. in contrast, whilst supporting state involvement in certain sectors of the economy, has a very high commitment to private enterprise and can be considered a good example of a mixed economy. Yet, the data in Table 2.1 does not fully support this interpretation: in 1975 the government expenditure in the U.K. accounted for 52.3% of GNP, while the comparable figure for Libya was 43.8%.

From the above discussion, it is safe to say that government functions have grown rapidly over the time in both developed and developing countries. Hence, a question might arise, what are the reason or reasons behind this rapid growth in government activity in Western countries? A brief and clear answer is provided by Due:

"Given the bias in the Western world in favour of private sector activity over government, the rising governmental activity can be attributed primarily to greater recognition of the inadequacies of the market mechanism in meeting the preference of society."⁽⁸⁾

Kaufman has specified four reasons that contributed to this expansion:

"The sheer increase in population, technological change, both hot and cold war, and economic crisis".⁽⁹⁾

(8) Due, op. cit., p.7

(9) Herbert Kaufman, "The Growth of the Federal Personnel System" in W.S. Sayre, ed., The Federal Government Services, quoted by Lee and Johnson, op. cit., p.25

Thus, the increasing intervention of government in the economic life because of the failures of the private market has largely contributed to the rapid growth of government expenditures. As a consequence of private sector inadequacy, two major problems were created, economic instability and monopoly.⁽¹⁰⁾ Government action is needed when there is instability in prices and an increasing unemployment level. This action could be to increase or decrease public expenditures or make changes in the taxation policy to cope with the situation. Also, government intervention is necessary when a monopoly of essential goods or services exists. This is achieved by taking over the activity from the private sector.

Moreover, government activity is required to produce goods and services which cannot be supplied by the market. Such goods are known as collective goods. National defence is an example.⁽¹¹⁾ Also, there are other kinds of goods, and services may not be provided in the market if the government does not supply such services. These types of services are called semi-collective goods, of which education is an example.⁽¹²⁾ If the government does not provide education for an individual in a society, the burden will be on the society as a whole, not only the concerned citizen.⁽¹³⁾

Finally, government intervention in the economic life of a country is unavoidable in some special circumstances. The existence of high risk in some big investments, which are so essential to the development of the economy, is an example. In these sort of investments, the private sector is unwilling to risk heavy investments where future returns are in doubt. Here government has to carry out such projects for the benefit of the whole community.⁽¹⁴⁾

Government intervention in the economic life of a country is achieved

(10) Sharp and Sliger, op. cit., p.16

(11) Ibid., p.13

(12) Ibid., p.14

(13) A.R. Prest, Public Finance : in Theory and Practice, Fourth Edition, London: Weidenfeld and Nicolson, 1970, p.15

(14) Otto Eckstein, Public Finance, 2nd Ed., Englewood Cliffs, N.J.:Prentice-Hall, 1967, p.11

by the creation of a public sector to share the responsibility of the economic development with the private sector. This approach is adopted in both developed and under-developed nations to carry out different development programmes for economic growth and promotion of the nation's well-being. British experience in public enterprises is very valuable for developing countries, as Kelf-Cohen says, "British public enterprise has come to be regarded as a model to be studied, particularly in the under-developed countries which are promoting the public corporation as an instrument of economic expansion ..."(15)

Burkhead, however, points out:

"It would not be safe to assert that public enterprise is increasing in importance in all governments. The role of public enterprise, at any one time, is most evidently shaped by the tides of political fortune and the accompanying attitudes toward the role and significance of private economic activity."(16)

There is, however, one important fact to mention. That is that the primary purpose of government expenditures differs among developed and developing countries. Horowitz has found out, by analysis of statistical data on government expenditures in a number of developed and developing countries, that a large portion of public expenditure in developed countries is for the purpose of social welfare. On the other hand, in developing countries, a large portion is devoted to economic development.(17)

As has been indicated earlier, the importance of government functions is well recognised in developing countries. In these countries, the government carries out the majority of the development programmes through

(15) R. Kelf-Cohen, Twenty Years of Nationalisation, London: Macmillan & Co., Ltd., 1969, p.215

(16) Jesse Burkhead, Government Budgeting, New York: John Wiley & Sons, Inc., 1956, p.400

(17) D. Horowitz, "Government Expenditure in Countries of Accelerated Growth", in A. Peacock and G. Hauser, (eds.), Government Finance and Economic Development, Paris : OECD, 1963, p.59

public enterprises. Consequently, the public sector has grown substantially and its role in their economic life has undoubtedly increased. Professor Burkhead, however, argues that this is not a permanent case:

"... In under-developed countries, public undertakings have assumed a major role in developmental programs, but in some instances it is anticipated that this is not a permanent state of affairs, and that these governmental activities will one day be transferred to the private sector." (18)

It is becoming well recognized that in a modern society both public and private sectors are very important in its economic life. As indicated above, the intervention of governments in the economic activities is well justifiable.

In most developing nations, however, the private sector is still small and plays a minor role in the development process. In such countries, the individuals are not in a position to form big companies mainly because of low income and the lack of entrepreneurship and managerial skills. Thus government has no choice but to carry on big projects and programmes for the sake of the nation's development and growth. But government usually is unable to carry out economically all projects needed for the purpose of development. Hence, a strong and effective private sector is badly needed. In some countries, government has realized the important role of the private sector and adopted the policy of encouraging private companies to expand and share the responsibility of the development process along with the public sector. In such economies, the government offers substantial facilities to the private sector in order to invest in huge industrial development projects. These facilities might be loans free of interest for a long time (as the case in Libya), exemption from custom duties on imported machinery and supplies, or protection of the national products by increasing the rate of duty tax on imported products which can be produced locally. The

(18) Burkhead, op. cit., p.400

consequence of this policy, if it is applied carefully and wisely, could be, no doubt, the creation of a strong private sector capable of playing a major role in the development process of the country.

2.2 GOVERNMENTAL DECISION MAKING PROCESS

The tremendous expansion of government activities and the increasing importance of its role in the economic life of the modern society, as indicated above, have made the task of decision making in government more difficult and more complex. Governments are normally facing the problem of scarce resources and the increasing needs and desires of their people together with the fact that costs needed to carry out necessary development programmes to accomplish national goals exceed the available resources. Therefore, decisions concerning choices between priorities have to be made.

The decision maker cannot avoid choosing when, how, whether, and in what order his problem requires him to:

1. Analyse the situation to be sure that there is a problem requiring a decision
2. Collect facts
3. Analyse the relationship between the facts and the problem
4. Consider new ideas and new ways to tackle the problem
5. Weigh alternative courses of action, both new and old
6. Choose a course of action
7. Rejudge that course in the light of four questions:
 - a. will it achieve the purpose?
 - b. will it actually solve the problem?
 - c. is it feasible?
 - d. are there understandable results to offset the advantages?
8. Make and issue a decision

9. Follow it up.⁽¹⁹⁾

In order to make the proper decisions, decision makers need to adopt new means to enable them to choose the best course of action for utilization of the available resources to achieve desired ends. As a result there has been an international acceptance that policy analysis has a great potential in improving the decision making process in public organisations and new concepts and techniques have been introduced to carry out such improvement. Cost-benefit analysis, linear programming, systems analysis and programme budgeting are examples. These approaches, of course, are only means of helping decision makers, they are not substitutes for the human judgement. One of the basic requirements for application of such techniques is an adequate, strong and complete system of information. Such a system should provide comprehensive and up-to-date data to be used through all the stages of planning and decision making.

Unfortunately, many developing countries, if not most, suffer from the lack of such a good information system, which makes the task of planning and decision making much more difficult. This poor system of information is one of the major obstacles to economic development in such countries. In Libya, as in many other developing countries, such weakness exists and makes the development planning efforts less effective.

Government decisions are very important to the whole economy, particularly those involving public spending. As the Plowden Committee report indicates:

Decisions involving substantial future expenditure should always be taken in the light of surveys of public expenditure as a whole, over a period of years, and in relation to the prospective resources. Public expenditure decisions, whether they be in defence or education or overseas aid or agriculture or pensions or anything else, should never be taken without consideration of (a) what the country can afford over a period of years having

(19) Roger W. Jones, "The Model as a Decision Maker's Dilemma", Public Administration Review, vol. 24 (1964), p.160

regard to prospective resources and (b) the relative importance of one kind of expenditure against another. (20)

Thus, the commitment of resources for many years to come has resulted in the need for a government to plan the necessary expenditures to carry out its tasks efficiently and economically to achieve national goals. Accordingly, developments of new decision making techniques have been taking place in developed countries. The experiences of some developed countries are valuable and might be considered by under-developed countries as a way to improve their decision making process.

2.3 BUDGETING AND ECONOMIC DEVELOPMENT PLANNING

As the government's activities in the economic life of the country grow rapidly, its responsibility for better utilization of available resources increases. The government's tasks consequently expand and need to be carried out effectively and economically. There are many competing claims facing the government of today, but the resources are limited and a choice between alternatives must be made.

In order to achieve the desired results to satisfy the public needs, good planning is becoming a matter of necessity. The increasingly important role of the government is well recognised almost in all countries. As indicated earlier, public expenditure has dramatically increased over time to become very significant in the economic life of a country, whether developed or under-developed. As a result, planning is becoming a normal activity which a modern government performs along with other functions.

Before World War II, the Soviet Union was the only nation involved in planning. (21) Things changed after World War II and planning became widely accepted as a normal activity, which a government performs in both

(20) G.B., White Paper on the Control of Public Expenditure (The Plowden Report), Cmnd. 1432, London : HMSO, July 1961, p.5

(21) Albert Waterston, Development Planning : Lessons of Experience Baltimore, Md. : John Hopkins Press, p.29

developed and under-developed economies.

In western countries, the limitations and inadequacy of the market mechanism in performing certain functions have been realised. According to Chamberlain "the market does not set social objectives, such as education and health, nor does it allocate resources between the achievement of such social objectives and the objectives of individuals and households. That must be done by political decision".⁽²²⁾ As a result, government intervention in the market is inevitable. Lindblom has stated:

"... an alternative view of the relationship between the market mechanism and planning had become dominant. It came to be widely accepted in all the market economies of the West that a very loose kind of planning could improve the performance of the market mechanism itself. Through taxation and redistributive devices such as free public education or social security, the market mechanism's distribution of income could be much improved."⁽²³⁾

Thus, Western countries have felt the necessity to introduce planning to help them to achieve their national goals. As a matter of fact, France was the first Western country to engage in planning by preparing its first annual plan in 1945-46.⁽²⁴⁾ Later on, in the sixties, the United Kingdom and the United States have shown an interest in planning as a result of some economic difficulties.⁽²⁵⁾ The market, however, still plays a crucial role in the economies of the West. The purpose of introducing planning in such economies is to help the performance of the market, not to replace it.

2.3.1 DEVELOPMENT PLANNING

Economically, countries are classified into rich and poor countries, or more precisely, developed and under-developed economies. All poor

(22) Neil W. Chamberlain, Private and Public Planning, New York : McGraw-Hill, 1965, p.137

(23) Charles E. Lindblom, "Economics and the Administration of National Planning", Public Administration Review, vol. 25 (1965), p.278

(24) Waterston, op. cit., p.31

(25) Chamberlain, op. cit., p.2

countries are considered under-developed, but not all rich countries are developed. Striking examples of this are the oil producing countries, such as Libya, which with their substantial amount of foreign exchange from oil revenue, are still under-developed economies. This fact supports the view that money is not the only requirement of a nation's economic development. Low income, however, is still the major characteristic of an under-developed country. Other main characteristics include low capital formation, as a result of low income, and relatively large agriculture sectors.

Governments of developing countries became aware of the needs and desires of their people and have a commitment to meet these desires. Therefore, such countries have realized that development planning is the only hope to accomplish their national goals of rapid economic growth. Such growth is very necessary in order to improve the standard of living of the people and to narrow the gap between developed and under-developed countries.

As a matter of fact, this gap is very wide and has led to concern from both poor and rich countries to narrow this gap. The major task of developing countries is to adopt a system of development planning to ensure the best way of utilization of its limited resources. The duty of developed nations is to contribute to such development by supplying capital and 'know-how'.

The development planning process begins first with a clear definition of national objectives. Normally, a number of objectives are determined and should be stated unambiguously and in order according to their significance. Second, the size and scope of the plan must be decided. The plan may cover only a part of the economy or the whole economy. This is determined largely by the availability of resources in the country. Third, a determination of the period covered by the plan is essential.

There are three types of plan, a short-range plan (or annual plan because usually it covers one year only); a medium-range plan (from three to five years); and a long-range plan (over ten years). Fourth, a comprehensive list of the available resources, at present and in future, should be prepared for the whole plan period, this includes, materials, labour, machines, etc. Fifth, a forecast of future events must be made and contingency plans should be available to meet any change which might occur. Finally, to make the plan more effective, a review of projects and programmes from time to time is required.

Tinbergen has identified two basic reasons for economic development in developing nations.⁽²⁶⁾ In the first place, the majority of the people in such countries live in poor conditions. These conditions should be changed by both the governments and the people themselves, by working harder and by help from developed nations. Secondly, most of the under-developed countries had been under colonization for many years. These countries after getting their independence, turned their concern to the improvement of their people's standard of living, and this is, hopefully, achieved through development planning.

But, is a development policy easy to adopt by an under-developed country? The answer is of course "No". In such a country a number of problems and difficulties are facing it. These problems and difficulties need a lot of effort and examination of potential solutions which sometimes are not found. As Tinbergen says, "A development policy, forming part of a general economic policy, is both complicated and comprehensive. It must influence and direct the whole activity of a modern society in all its variety. This activity takes place partly in the public and partly in the

(26) Jan Tinbergen, Development Planning, New York : McGraw Hill Book Company, 1967, p.30

private sector of society ..."⁽²⁷⁾

In under-developed nations, the individual income is extremely low, the capital formation is very little, the 'know-how' is limited, and, in general, the standard of living is very poor. Therefore, adaptation of a development planning system would be essential to utilize the limited resources effectively for accomplishing desired ends. Development planning may be defined as "the preparatory evaluation and decision-making process of a forward-looking character for an economy, in which alternatives have to be measured, weighted and outlined, and priorities for the use of resources established."⁽²⁸⁾ It aims to achieve two primary goals, economic growth, and social and cultural change.

In the under-developed countries of Asia, Africa and Latin America, development requires social and cultural change as well as economic growth; that is, qualitative transformations must occur concurrently with quantitative increases. There is, in fact, a reciprocal relation between the two, and neither process, is likely to continue for long or go very far without the other. Hence development means change plus growth.⁽²⁹⁾

While there are many competing claims facing the government of a developing nation, the resources are limited, mainly because the people are too poor to contribute to revenue, and a choice between alternatives must be made according to the priorities. This could be best achieved by implementation of development planning.

Developing countries, however, face many problems, political, economic and social. Such problems, of course, impair the efficiency of planning and consequently, the goals of the nation are not achieved. Indeed, there are many cases of failure of national planning in several countries.⁽³⁰⁾

Goodman has suggested three major reasons for the difficulties of planning

(27) Ibid., p.34

(28) Adolf J.H. Enthoven, Accountancy and Economic Development Policy, Amsterdam : North-Holland Publishing Company, 1973, p.149

(29) Waterston, op. cit., pp.16-17

(30) Seymour S. Goodman, "The Paradox of Development Planning", Omega, vol. 2, no. 5 (1974), p.625

for developing nations as compared to developed nations, "instability of agricultural output, uncertainty over export proceeds and import prices, and inadequacy of information and personnel."⁽³¹⁾

The fact is that development problems are different from one country to another. For instance, the problems of oil producing countries, such as Libya, are quite different from other countries' problems. The substantial amount of oil revenue in such countries allow them to improve the standard of living of the people so quickly. But they are faced with the problem, along with other ones, of how to channel some of the large revenues into more productive investments. Indeed these countries suffer from a lack of domestic investment opportunities. Thus, much of their revenues are invested abroad, mainly in the West. Also, these large revenues bring many problems with them which most of these countries can hardly cope with.

In general, however, most under-developed countries are facing three major problems. These are, inadequacy of information systems, lack of skilled personnel, and poor capital formation.

Many, if not most, of under-developed countries suffer from a very poor system of information.⁽³²⁾ An adequate system of information to supply necessary data on the economy as a whole is a very important factor in a planning activity. Information and data on both public and private sectors is necessary to make best allocation of available resources through a development plan. "The lifeblood of economic planning is concrete, comprehensive and up-to-date information on the structure of the economy and its manner of functioning."⁽³³⁾

(31) Ibid., pp.626-31

(32) Ibid., p.631

(33) Ibid.

Furthermore, the accounting system in many developing countries is very poor. ⁽³⁴⁾ This makes the job of planners much harder since accounting is considered a major source of information in both public and private sectors. Accordingly, improvement in accounting systems is badly needed in such countries. Such improvement would result in more accurate and reliable data on the economy which will, undoubtedly, contribute to the effectiveness of development plans in those countries. Enthoven put the point well when he wrote: "A well-organised accounting (and statistical) system is thus essential to the proper formulation, evaluation and execution of development plans and projects supplying information of a past, current and future nature, that is: accurate and realistic, complete, efficiently presented, and timely." ⁽³⁵⁾ Thus, the availability of information about past and present activities is necessary for effective development planning.

The second major problem which may face a developing country is the shortage of qualified personnel and poor administrative machinery to prepare, implement, and evaluate developing plans. As a matter of fact, successful planning requires a sufficient administrative system. "Development planning is hardly practicable until a country has established a civil service capable of implementing plans." ⁽³⁶⁾

Therefore, developing nations which engage in planning activities have realised that improvement in their administrative system is very essential. Unfortunately, there is a shortage in managerial skills in under-developed countries in both private and public sectors. ⁽³⁷⁾ Thus, the lack of entrepreneur and management skills in such countries makes

(34) Waterston, *op. cit.*, p.216

(35) Enthoven, *op. cit.*, p.156

(36) W. Arthur Lewis, *The Principles of Economic Planning*, 2nd ed., London : George Allen and Unwin Ltd., 1961, p.100

(37) H. Myint, *The Economics of the Developing Countries*, 4th ed., London : Hutchinson University Library, 1973, p.146

development planning more difficult to introduce and to implement. Most of these countries have recognized this impediment factor to planning and have adopted the policy of investment in human capital through education and training locally and abroad in advanced countries in order to prepare more skilled personnel.⁽³⁸⁾

Finally, capital formation is another major problem facing developing countries. Indeed, capital formation is considered as one of the crucial factors to achieve economic growth. But increasing capital formation is not easy. Investment depends on savings which are extremely low in under-developed countries simply because the per capita income is low. To overcome such problems, governments of such countries have adopted various policies to stimulate the necessary savings. The proper direction of such savings by government is also very essential in these countries because "often much capital is exported or put into unproductive areas such as real estate, the building of large houses, or the hoarding of gold".⁽³⁹⁾ In this respect, government regulations and laws, and establishment of investment companies may help to direct savings to more productive areas.⁽⁴⁰⁾

2.3.2 RELATIONSHIP BETWEEN PLANNING AND BUDGETING

The government budget is considered as the device through which a government carries on its activities. In order to carry out such activities effectively and adequately, budgeting systems should be improved to cope with the tremendous increase in these activities. Accordingly, attempts have been made in this important field which aimed at improving the budgeting system in some developed countries such as the United States and the United Kingdom.

(38) Ibid.

(39) Enthoven, op.cit., p.143

(40) Ibid.

However, some budgetary developments, such as planning programming budgeting system (PPBS), as discussed in the next chapter, are considered by several writers as very difficult approaches to apply to government budgeting even in advanced economies. But, the experience of the Department of Defence in the United States with PPBS is very encouraging.⁽⁴¹⁾

In developing nations, the experience with some budgetary reform, such as performance budgeting is not encouraging.⁽⁴²⁾ Nevertheless, the budgetary system in developing countries needs to be improved to cope with the increased scope of government activities.

Government budgeting is regarded as the principal instrument of planning. Improvements in the field of budgeting will result in more sound implementation of plans and will increase the efficiency of resource allocation. It is being realised that, a good system of budgeting is very essential in order to carry out government activities more efficiently.⁽⁴³⁾ As a result, the field of budgeting has been a matter of great concern and a few major developments have been made.

According to Mosher, the government budget has two basic purposes, policy and administrative. The policy purpose means: "The bringing of information to the proper level for the making of decisions - a category in governmental policies, programs, and objectives". The administrative purpose refers to "the providing of information both upward and downward so that those decisions will be properly carried out".⁽⁴⁴⁾

The budget's role in Western countries is of great significance. The budget in such countries is used as an indirect instrument for planning. Governments, through the budget, public expenditure and taxes, could direct

(41) See Chapter 3

(42) Waterston, *op. cit.*, p.240

(43) United Nations, Department of Economic and Social Affairs, *A Manual for Programme and Performance Budgeting*, New York : U.N., 1965, p.vii

(44) *F.C. Mosher, Program Budgeting : Theory and Practice*, Chicago : University of Chicago Press, 1954, p.5

the economic activities to achieve the desired ends. As Lewis says, "the budget is not the only instrument available to planning, but it is the most important, the most powerful, and the most embracing."⁽⁴⁵⁾

In developing nations, government direct planning is a matter of necessity since budgeting systems are extremely inadequate.⁽⁴⁶⁾ The budget in these countries, as discussed in the next chapter, is not as powerful as in developed countries and planning through it cannot be practiced effectively unless it is improved.

In conclusion, the government budgeting in developed countries is being increasingly recognized as an effective device for planning and managing the economy to achieve national goals. Thus, some developments took place in some of these countries to improve the state of the budget to become a more powerful planning device. Performance budgeting and programme budgeting have been considered in recent years as the major developments in this area. The process of budgetary reform in developed countries is discussed in some detail in the next chapter.

On the other hand, as the next chapter will show, budgetary systems in developing countries are inefficient. At the present time, the objective of the budget in developing economies is to control the use of public money. Planning is performed separately by specialised agencies. Modernisation of the budgetary process should be considered in order to make it more effective. This would improve the process of economic development, and consequently, the national goals could be achieved. Of course, this task is not easy to perform, but the experience of developed countries can be very helpful.

(45) Lewis, op. cit., p.27

(46) United Nations, op. cit., p.vii

CHAPTER III
GOVERNMENT BUDGETARY REFORM

3.1 INTRODUCTION

The Government budget is the principal tool of financial planning in any government in the world. It is an instrument by which a government controls its expenditures and revenues. It is used as a means of translating the economic plans into requirements. Therefore, it is the only available source of information on the type and size of public expenditures and revenues.

The importance of government budgeting has increased as a result of the growing role of the government activities in almost every country in the world. Consequently, governments have been under heavy pressure to improve their decision-making processes to cope with its growing role and to make the best use of their limited resources.

Naturally, the first thing which needs to be improved is the budget because of its obvious and dominant role in the financial and economic life of a country. It has been realised that the traditional system of budgeting, as discussed later in this chapter, is neither effective nor efficient. Thus, new developments have occurred in the government budget to overcome the limitations and shortcomings of traditional system of budgeting in order to have an effective and efficient budget. Such developments however, have been considered only in the developed countries. In almost all developing countries, budgetary systems are still under-developed and a lot of effort is needed in that respect.

The purpose of this chapter is to introduce a review of the processes of government budget reform in developed countries, basically the United

States and the United Kingdom.⁽¹⁾ This investigation is so essential in order to evaluate the experience of such countries. Further, this review and evaluation will throw light on the potentiality of introducing some new techniques to improve the existing budgeting system in developing countries.

This chapter, therefore, is divided into four sections. First, a brief discussion of budgeting functions; second, a review of the stages of budgetary reform from conventional budget to programme budgeting; third, an examination of the new trend in budgetary reform following the decline of programme budgeting in the early 1970's; and finally a summary is presented in the last section.

3.2 FUNCTIONS OF GOVERNMENT BUDGETING

Every budget system has potentially three major functions to serve, that is financial control, managerial control and strategic planning.

Schultze explains these functions as follows:

Financial Control: the control of subordinate units to insure that public funds are spent only for those objects or purposes specified by law and that appropriations are not exceeded.

Observance of statutory restrictions, adherence to the fund provided in appropriations acts, and avoidance of corruption are the basic objectives of financial control.

Managerial Control: programming the use of resources, manpower, equipment, transportation, and the like to carry out an approved set of activities in an efficient manner. Procurement regulations that minimize purchase costs, work measurement programs designed to raise output per man-hour, streamlining of paper processing, and introduction of labor-saving equipment are among the typical activities encompassed by the management control function.

Strategic Planning: establishing and specifying objectives, choosing among alternative programs to achieve those objectives, and allocating resources among those programs. Strategic planning is concerned with determination of the kind and level of activities that managerial control seeks to carry out efficiently.⁽²⁾

(1) The British Experience is discussed in more detail in part two of this study

(2) Charles L. Schultze, The Politics and Economics of Public Spending, Washington D.C. : The Brookings Institution, 1968, pp.5-6

The successful system of budgeting is the one which performs these three functions effectively. Traditionally, greater emphasis had been given to the control function (the accountability concept) than the other two functions, management and planning. Of course financial control is an essential part in the budget process, but the planning of how resources are allocated among various activities and the insuring of the efficient use of these resources are equally important. The budgetary system should be tailored to serve those purposes in order to obtain the full benefits from it.

Therefore, attempts have been made to improve the traditional budget in developed countries. The aim was to introduce some new management techniques to make the budget a more effective and efficient tool for planning. Programme budgeting is considered to be the latest development of a continuous effort to improve the budgetary process. Through this system, planning, management and control are recognised as major functions to be performed by the budget. Schick has stated that:

It should be clear that every budget system contains planning, management, and control features. A control orientation means the subordination, not the absence of planning and management functions. In the matter of orientations, we are dealing with relative emphasis, not with pure dichotomies. The germane issue⁽³⁾ is the balance among these vital functions at the central level.

In short, a good budget structure would enable the policy maker to make better use of available resources. It also helps to achieve the desired ends by using the most efficient means and it will ensure that any amount of money has been spend for the purpose to which it was originally allocated.

3.3 THE STAGES OF BUDGETARY REFORM

Many developed nations have long realised the inadequacy of the

(3) Allen Schick, "The Road to PPB : The Stages of Budget Reform", Public Administration Review, vol. 26, no. 4 (December 1966), p.245

traditional system of budgeting as an effective management and planning tool. In the USA, the first basic change in the budget process was in 1921 when the Budget and Accounting Act of 1921 was established.⁽⁴⁾

According to Schultze, "Until the 1920's, no overall executive budget existed and none of the three major functions of budgeting was effectively performed".⁽⁵⁾

After World War II, in 1949, another major budget reform took place following the recommendations of first Hoover Commission. It recommended that "the whole budgetary concept of the Federal Government should be refashioned by the adaptation of a budget based upon functions, activities, and projects: this we designate a "performance budget".⁽⁶⁾ The Budget and Accounting Act of 1950 was the result of those recommendations. Schultze has observed:

The budgetary reforms of the 1920's were directed toward the financial control function, while the reforms of the immediate pre-war and post-war years were directed toward the managerial efficiency function.⁽⁷⁾

The final stage of budgetary reform in the USA started when the new system programme budgeting was first introduced in the Defense Department in 1961 and in the whole Federal Government in 1965. At that time, PB was considered as a revolutionary system in the management of government. This view was based on the success of the new system in the Department of Defense. In the civilian agencies, the situation was different and the new system did not achieve the desired success, and the results of its application from 1965 to 1970 were not encouraging.⁽⁸⁾ This does not mean that the failure

(4) Schultze, op. cit., p.8

(5) Ibid., p.6

(6) Arthur Smithies, "Conceptual Framework for the Program Budget", in D. Novick, (ed.), Program Budgeting, Cambridge, Mass. : Harvard University Press, 1967, p.29

(7) Schultze, op. cit., p.14

(8) Allan Schick, "A Death in the Bureaucracy : The Demise of Federal PPB", Public Administration Review, vol. 33, no. 2 (March/April 1973), p.149

is wholly attributed to the concept itself. Rather, it is the procedures of application and the characteristics of the American system of government which contributed largely to its limited success. More will be said on this in section 3.3.3.4.

In Britain, attention has been given to two aspects, long-range planning through the Public Expenditure Survey Committee (PESC) and analysis through Programme Analysis and Review (PAR).⁽⁹⁾ The importance of long-range planning in the government has been recognised since the middle of the 1950's.⁽¹⁰⁾ The Plowden Report in 1961 recommended a more effective use of public expenditure by looking ahead over a period of years. More will be said on this in the next chapter.

According to Keeling, Britain, in trying to avoid the faults which accompanied the introduction of PB in the USA, have followed a somehow limited approach to PB, that is, "To concentrate on necessary analysis in depth and develop a study of resources under programmes, without changing the planning and budgeting processes."⁽¹¹⁾

Also, in Britain, unlike America, there has not been any attempt to introduce PB to the whole central or local government at the same time. Every department and authority has been left to decide whether to introduce the new system. According to Garrett, PB was first introduced in Britain in the Ministry of Defence in 1963. Other departments include the Department of Education and Science and the Home Office. Furthermore, a number of local authorities have either applied the system or considered its future application.

In this section, the two major developments in budgeting in the USA, performance budgeting and programme budgeting are presented and evaluated.

(9) Discussed in detail in the next chapter

(10) W.Z. Hirsch, "Program Budgeting in the United Kingdom" *Public Administration Review*, vol.33, no.2 (March/April 1973), p.120

(11) D. Keeling, Management in Government, London : George Allen & Unwin, 1972, p.175

The new ideas which developed after the decline of PB in the early 1970's are presented in section 3.4. But before presenting performance budgeting and PB, a critical discussion of the traditional approach to budgeting seems in order.

3.3.1 THE TRADITIONAL BUDGETING

3.3.1.1 CHARACTERISTICS OF TRADITIONAL BUDGETING

The Government budget has been considered as a basic tool for the effective financial control of the national resources. This limited function of the budget was seen as appropriate because of the limited government activities. The tremendous increase in government activities in almost all nations and the adaptation of economic planning in developed and developing countries to promote economic growth makes the traditional system of budgeting inadequate. (12)

Anshen has the following to say regarding the traditional system of the US Federal Budget:

The present Federal Budget design is largely the product of an historical response to the need to safeguard the integrity of appropriation against careless, ill-informed, or malefficient administrators in the executive departments. It is an instrument for the control of spending. It was not designed to assist analysis, planning and decision-making, and it does not work well for that purpose. It is a conventional comptrollers budget, not a managers budget. (13)

As a result, attempts have been made to improve the budgetary system to meet the needs of decision makers in order to use the resources more efficiently.

A typical traditional budget has the following general characteristics:

First, expenditures are classified according to the types of resources purchased (inputs). It is an object expenditure classification, materials

(12) United Nations, Department of Economic and Social Affairs, A Manual for Government Accounting, New York : UN, 1970, p.23

(13) M. Anshen, "The Federal Budget as an Instrument for Management and Analysis", in D. Novick (1967), op. cit., p.12

equipment, salaries, etc. Also, the practice of the segregation between capital and current expenditures is not usually followed. In this type of budget, only the sum of the expenditures input is found, it does not consider the aim of the expenditure.

Second, in this system of budgeting, attention is given only to the next fiscal year. The government departments and agencies do not practice the habit of forward planning for several years ahead. Expenditures and revenues are estimated for one year only. Thus, there is no planning technique used since long-term planning is not practiced.

Third, the main purpose of the traditional budget is to have an effective financial control over public expenditures and revenues. It shows the allocation of resources among different activities without indicating how these resources should be used and what are the expected accomplishments. This limited function of budgeting does not require an advanced accounting system in the government so that the existing accounting system of many governments are still inadequate to meet the requirements of an improved system of budgeting.

3.3.1.2 Shortcomings of Traditional Budgeting

From the above characteristics of the traditional budget, several shortcomings can be found:

1. The traditional classification system is not appropriate for the budget to be considered as a tool for plans implementation and for the purpose of economic analysis. To get the full benefit, the budget should be organised by both functional and economic classifications.⁽¹⁴⁾ In other words, expenditure should be classified according to the objectives they serve (functions), and both current and capital expenditure should be segregated from each other. Waterston explains:

(14) Waterston, op. cit., p.218

For a budget to be a reasonably efficient instrument for plan execution, it must have a classification system which (a) permits allocations and expenditures to be related to specific projects, programs and other purposes in the plan; (b) distinguishes between capital and current expenditures and receipts, and shows the extent of public savings ... available for investment; and (c) distinguishes between development and non-development expenditures on both current and capital account. The classification system employed in conventional administrative budgets does not meet these requirements.⁽¹⁵⁾

Also, functional and economical classification is an essential primary step toward the installation of an advanced system of budgeting such as performance budgeting or programme budgeting as will be explained later in this chapter.

It is important to mention here that adoption of the new classification does not mean that the object of expenditure classification will not continue. Rather, the traditional classification would be a very significant factor in providing an effective control over the inputs used. "Essentially, there is no conflict between the programme and activity classification and other types of expenditure classification."⁽¹⁶⁾

2. The second deficiency in the traditional budget is its limitation to one year only. The concentration on a single year weakens the role of the budget. Many of the present budget decisions to carry out various activities will lead to future costs incurred over more than one year. Without forward estimates of such costs, programmes and projects could be seriously affected, and the planned output would not be achieved.

As Smithies has observed, "the traditional budget period of a single year throws little light on the significance of expenditures whose effects may be spread over the next decade."⁽¹⁷⁾ Thus, in order to have an effective budget, the time span over which expenditures take effect should be considered in advance.

(15) Ibid.

(16) United Nation (1965), op. cit., p.4

(17) Smithies, op. cit., p.29

3. Little attention is paid to the identification of the departments' objectives and goals. Failure to know these objectives would result in a misjudgement of the value of the suggested expenditures. Accordingly, in order to review the effectiveness and value of expenditures, objectives should be specified. Such objectives will serve as a guide line in the process of performance evaluation.

4. The traditional government system of budgeting emphasises the concept of financial control over public expenditures. It lacks effective planning and efficient management of national resources. Thus, there is no standard performance which can be used as a guide in the course of budget execution. What is important is to ensure that any allocated money has been spent as planned according to the government regulations.

Government budgeting begins with indispensable efforts to promote "accountability" by preventing public funds being stolen, used for unauthorised purposes, or spent at uncontrolled rates that could lead to inflation or higher taxes.⁽¹⁸⁾

5. This system of budgeting does not concern itself with the expected physical output of expenditures. The result is that the effectiveness and adequacy of the proposed expenditures can not be determined in advance.

6. Alternative courses of action to achieve desired ends are not usually considered in this system. Without consideration of possible alternatives, the best means to meet the needs may not be obtained.

7. Finally, the absence of planning and management techniques in this system makes the task of government decision making more harder.

Smithies observed:

The traditional method is not and never has been adequate. The name of a department or a bureau is not sufficient to describe what it does. Nor are numbers or types of personnel

(18) B.M. Gross, "The New Systems Budgeting", Public Administration Review, vol.29, no.2 (March/April 1969), p.117

employed an adequate measure of the functions they perform.⁽¹⁹⁾

In response to these shortcomings, attempts have been made to improve the budgeting process to overcome them. The aim of these efforts is to make the budget serve more effectively its potential functions of planning, management and control.

The limitations of the traditional budget and its emphasis on financial control and accountability aspects have long been realised in developed countries, and several improvements have been achieved since World War II through the developments of new budgetary systems such as performance and programme budgeting as will be seen later in this section.

In developing countries, it is a different situation. The budget system in many of these countries is still inadequate and does not serve the planning and management functions in the economy. It is basically a tool for the control of public spending. The Secretary General of the United Nations has recognised this fact when he said:

The budgetary systems of many developing countries have failed to keep pace with the new demands made on them by the greatly increasing scope of activity of the public sector, and, in particular, by the adoption of a planned approach to economic development. Thus, the need is first for the development of new types of information on the public sector essential for drawing up long term development plans, and second, for changes in concepts and procedures in government budgeting required to make the annual budget an effective instrument for implementing the development plans and policies.⁽²⁰⁾

Accordingly, an urgent need to improve or even revise drastically the traditional budget to become more effective was recognised by many developed countries.

Some budget specialists ... believe the conventional administrative budget must be replaced by an entirely new system, alternatively or synonymously called program and performance budgeting. This form of budgeting attempts to classify budgetary transactions on the

(19) Smithies, *op. cit.*, p.29

(20) United Nations (1965), *op. cit.*, p.vii

basis of government functions, programs, projects and activities and to measure results achieved in physical, as well as in financial terms.(21)

Most developed countries have realised such limitations of the conventional budget and have introduced changes to overcome these shortcomings in order to have an effective budgeting system. Performance budgeting and programme budgeting are discussed here as two major reforms. And the new trend in improving the budget process, after the decline in the use of PB because of difficulties in its implementation, is discussed in section 3.4

3.3.2 PERFORMANCE BUDGETING

Performance budgeting was first applied to the government budget in the USA following the recommendations of both the first and second Hoover Commissions in 1949 and 1955. It aims to attain greater efficiency in carrying out various government activities through a functional classification of the budget and work measurement programmes. According to the US Bureau of the Budget:

A Performance Budget is one which presents the purposes and objectives for which funds are require, the costs of the programs proposed for achieving those objectives, and quantitative data measuring the accomplishments and work performed under each program.(22)

The major objective of performance budgeting is to improve the managerial control function of the budget. Functional classification instead of the traditional object of expenditure classifications, is a primary requirement for installing a performance budget system. This classification, however, is not the only improvement in the budgetary system by adopting performance budget.

... Performance budgeting is much more than an improved system of classifying or presenting a budget. Whereas traditional budgetary procedures emphasize only the financial aspects of

(21) Waterston, op. cit., p.247

(22) Quoted by Burkhead, op. cit., p.142

expenditures when a budget is formulated, executed or audited, the distinguishing feature of program and performance budgeting is that it seeks, whenever possible to measure the results achieved in physical or real, as well as in financial, terms. (23)

An adequate accounting and reporting system is a matter of necessity to enable the management to determine unit costs and to set standards of performance for each work unit. These standards are compared with the actual results to evaluate the efficiency of carrying out a specific activity. This type of cost system is highly developed in business accounting where cost accounting is used as a very effective managerial tool. In many developed countries, there have been improvements in the government accounting system and in cost techniques as a result of introducing this new system of budgeting. The traditional government accounting system

does not adequately indicate the relationship between expenditures and results, and thus, prohibits the formulation and execution of an economically meaningful budgetary policy ... budget orientation has major implications for government accounting systems and techniques, as it involves an expansion from the accountability (fiduciary) posture of the budget towards the processes of work, i.e. a managerial decision making focus concerned with the efficient performance of activities. (24)

Performance budgeting emphasises the importance of the work to be achieved not the resources to be utilized. In other words, it emphasises efficiency rather more than the accomplishment of objectives of a programme. This new orientation of the budget recognises its managerial control function, that is, the efficient use of resources. The planning process, however, is not emphasised in this system of budgeting.

Rose has identified the following elements of performance budgeting:

- (1) An accounting structure primarily based on functions, activities, sub-activities etc.
- (2) Particular emphasis upon deployment of personnel within each of those categories, although other elements of cost are by no means ignored.
- (3) The use of work measurement techniques to arrive at reliable yardsticks of output for as many activities as possible.

(23) Waterston, op. cit., p.247

(24) Enthoven, op. cit., pp.51-52

- (4) The establishment of convenient units which relate outputs to inputs.
- (5) Work standards are then created so that departmental managers assist in the preparation of budgets which envisage performance levels as well as cost limits.
- (6) During the financial year reports are issued which compare total output, total input and rate of performance against the standards incorporated in the adopted budget.
- (7) During the budget preparation cycle, requests for additional staff, and even the justification for current staff levels have to be supported by evidence of reasonably anticipated work-loads in the light of agreed work standards.⁽²⁵⁾

Performance budgeting has been adopted by many developed countries. But the Phillipines is the only known developing country to try and adopt the performance budgeting approach by learning from the American experience in this respect.⁽²⁶⁾ Perhaps the most difficult problem facing a developing country when considering the introduction of such a system is the shortage of skilled personnel such as economists, accountants and statisticians.

At this point, a word about the experience of the Phillipines with performance budgeting is in order to throw light on the potential of performance budgeting as a means of improving the budgetary process in developing countries. In 1954, it was realized that the Phillipines budget needed to be improved by being based on functions, activities, and projects in terms of expected results. Thus, and through the assistance of an American management consultant firm, performance budgeting was installed in 12 agencies in fiscal year 1955/56. The remaining 68 agencies of the national government were included in 1956-57.⁽²⁷⁾

As Professor Parsons has pointed out, the effectiveness of performance budgeting in the Phillipines was impaired by four basic problems. First, the problem of cost measurement which resulted from poor and inadequate accounting and reporting system in the Phillipine government. Their system

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- (25) K.E. Rose, Programme Budgeting : With Particular Reference to the United States of America, London : IMTA September 1969, p.51
 - (26) M.B. Parson, "Performance Budgeting in the Phillipines", Public Administration Review, vol.17, no.3 (Summer 1957)
 - (27) Ibid., p.174

had been in existence for more than 300 years with little change. Such a deficiency clearly prevents the appropriate cost measurement of activities, functions and programmes which is the fundamental element of performance budgeting.

Secondly, the Phillipines at that time lacked the skilled personnel in the civil service to implement performance budgeting although attempts have been made to establish training programmes for civil servants. Such efforts, however, were hindered by the lack of time available for training courses before introducing the new budgetary system.

Thirdly, little has been tried to improve the state of the government administrative organisation. According to Professor Parsons, only ad hoc organisational developments took place which were not enough to accommodate the sophisticated budgetary approach.⁽²⁸⁾

Finally, the Phillipine Congress had its effect on performance budgeting. The legislative branch played a major role in hindering the effectiveness of performance budgeting by putting pressure to return to the traditional budget because they resisted the way in which the new budget was submitted.

In Professor Parsons's view, the big mistake made by the Phillipines was the adoption of a "ready-made" American system without sufficient preparation. No attempt had been made to consider the social, economic and political environment in the Phillipines. He rightly pointed out that it was wrong to introduce such American administrative ideas which were too advanced for this underdeveloped country. He believes that an adequate training programme for personnel and reform in the accounting system should precede budget reform.

(28) Ibid., p.177

3.3.3 PROGRAMME BUDGETING (PB)

Programme budgeting is the final stage in the budgetary reform process. It emphasises the importance of the planning function as well as the management and control functions in a budgetary process. The first comprehensive application of a PB system to government activities was in 1961 by the American Department of Defense. In August 1965, President Johnson announced the introduction of programme budgeting to the whole US Federal Government. Clearly, the success of the new system in the US Department of Defense was the prime reason behind the President's decision.

The objectives of PB as adopted by the American Federal Government were stated by the US Bureau of the Budget in its Bulletin 66-3 of October 12, 1965:

The overall system PPBS is designed to enable each agency to:

1. Make available to top management more concrete and specific data relevant to broad decisions;
2. Spell out more concretely the objectives of Government programmes;
3. Analyze systematically and present for agency head and Presidential review and decision possible alternative objectives and alternative programs to meet those objectives;
4. Evaluate roughly and compare the benefits and cost of programs;
5. Produce total rather than partial estimates of programs;
6. Present on a multi-year basis the prospective costs and accomplishments of programs;
7. Review objectives and conduct program analysis on a continuing year round basis, instead of on a crowded schedule to meet budget deadlines.

The introduction of the system to the government had different reactions from various writers. As Schultze, Director of the Bureau of Budget at that time, spoke to a Congressional Committee:

Much has been published on PPB. Learned articles have treated it sometimes as the greatest thing since the invention of the wheel. Other articles attack it, either as a naive attempt to quantify and computerize the imponderable, or as an arrogant effort on the part of latter-day technocrats to usurp the decision-making function in a political democracy. (29)

Programme budgeting (PB), planning-programming-budgeting system (PPBS), and output budgeting are different names referring to one management decision-making system. In this study, the term programme budgeting and the initials PB and PPBS are used synonymously.

PB as a management system aims to provide the decision maker with the necessary information to make the best use of available resources. It is unlike performance budgeting because "while performance budgeting emphasises the importance of increasing performance efficiency"⁽³⁰⁾, PB emphasises the output of a given level of expenditure, i.e. the effectiveness of a particular programme in achieving a given objective(s). In a PB context, all possible future implications of current decisions are considered.

Programme budgeting, unlike traditional budgeting, has three dimensions, resources (inputs), programmes, and time.⁽³¹⁾ That is, every stated objective requires resources, e.g. manpower and equipment; programme(s); and a period of time to be accomplished. Those three dimensions of a PB system are illustrated in figure 3.1.

Therefore, long-range planning is one of the major elements in a PB system. Indeed, PB attempts to make a more clear relationship between planning and budgeting. Such a close relationship is very essential for its effectiveness.

But while most writers agree that the process of planning and budgeting should be integrated for the better use of resources, Keeling seems not to do so when he says "Planning and Budgeting are different processes in purpose, ambit, concepts and conventions. The most one can ensure is that the two processes are mutually consistent in a general way. Integration is not, and perhaps should not or cannot be, complete".⁽³²⁾

(30) H.P. Hatry and J.F. Cotton, Program Planning for State, County City, Washington D.C. : State-Local Finance Projects, George Washington University, 1976, p.35

(31) D.I. Cleland and W.R. King, System Analysis and Project Management, New York : McGraw-Hill Book Co., 1968, p.126

(32) Keeling, op. cit., p.171

Figure 3.1

The Three Dimensions of a Programme Budgeting System



Source: D. I. Cleland and W.R. King, System Analysis and Project Management, New York : McGraw-Hill Book Co., 1968, p.125

It is appropriate to mention here that there is little if anything really new in any of the elements of PPBS. What is new is the attempted reconciliation of planning, programming and budgeting within one comprehensively organised approach or system.⁽³³⁾ Enthoven explains more clearly the aim of a PB system.

PPBS attempts to integrate planning-budgeting-accounting-reporting-stewardship into one coherent and integrated system. Its aim is to convert the regular annual budgetary routine to an evaluation and formulation of projects in the light of future objectives and policies, and to establish such policy-making on a more national footing by means of data on individual and/or social costs and benefits of alternative ways and outputs measurements for the attainment of certain objectives and needs.⁽³⁴⁾

The purpose of PB is to relate objectives to resources in order to accomplish the desired output. The fact is that resources are limited with competing needs. Efforts must be directed toward the goal of using these limited resources effectively and efficiently to achieve objectives. By using a PB system, objectives are determined and all alternative courses of action to attain those objectives are systematically examined to choose the ones which contribute most to the accomplishment of those objectives.

Perhaps the main advantage of a PB system is the fact that it enables the decision-maker to consider all possible means in order to achieve certain goals at the minimum cost. The best alternative(s) cannot be chosen unless all alternatives are considered.

It is important to note that a PB system is not a substitute for human judgement and wisdom. Rather, it assists decision makers by providing more sufficient information.

It (PB) will not in itself provide answers to problems or make decisions for managers. It will not displace management judgement, wisdom or experience. It will not determine objectives. It will not judge performance. In short, it will enlighten major decisions issues and help managers to manage better.⁽³⁵⁾

(33) Rose, op. cit., p.14

(34) Enthoven, op. cit., p.64

(35) Anshen, op. cit., p.23

The fact is that there is no standard meaning of a programme budget,⁽³⁶⁾ it has been defined in several ways by different writers. Three basic aspects, however, are found in most PB definitions; these are structural, analytical and informational aspects.⁽³⁷⁾

3.3.3.1 STRUCTURAL ASPECTS

The structure process consists of two basic elements, the setting of goals and objectives, and the structure of programmes on a long-term basis.

The objectives of the organisation should be defined as clearly as possible and in an orderly manner. They are based on the question of what the organisation is trying to accomplish in the light of its needs, opportunities and resources. Thus, the aims and purposes of the establishment are very important and should be identified very clearly before the design of the programme structure.

A distinction between intermediate and final objectives should be made. Objectives should also be reviewed annually and brought up to date in the light of any new circumstances. At the final stage, actual output is evaluated against objectives to see whether these objectives have been accomplished.

The task of setting the organisation's objectives is the corner stone for the whole process of PB. It is not, however, an easy task because not all the objectives of an agency or department could be defined clearly. As Garrett says "The aims of government departments are both more complex and diffuse than those of businesses and few have been put in writing. They usually have to be distilled from legislation and regulations, Ministerial statements and the proceedings of official inquiries and parliamentary

(36) L. Merwitz and S. Sosnich, The Budget's New Clothes, Chicago : Markham Publishing Company, 1971, p.1

(37) George Steiner, "Problems in Implementing Program Budgeting", in Novick, (1967), op. cit., p.308

committees." (38) Indeed, this difficulty was one of the basic problems which faced most of the government departments in the USA, when PB was introduced. As Rose put it "officials find it very difficult to identify their final objectives or goals, firstly because they have not been called upon to do so in specific terms before, and secondly, because this really is a difficult exercise when so many public services are intimately associated with abstract expressions of social welfare or the Common good." (39)

Next comes the design of the programme structure. These programmes are the product of the grouping of expenditures on an output-orientated basis. Programme structure aims to link activities to objectives in such a way that activities are classified according to the objectives that are to be achieved. It "is a way of organising information with the objective of revealing how much is being spent for each purpose. This objective is to be attained by classifying expenditures in terms of programmes regardless of which agencies spend the money or what kind of things the agencies buy." (40)

In a programme structure context, government expenditures are classified into different functions. These functions, in turn, are divided into programmes. Every programme is divided into activities. (41)

Functions are the major divisions of government which have different types of services to offer to the people in order to achieve the major aims of the government, education, health and defence are examples. Within each function, e.g. education, a set of programmes are developed to meet certain objectives of that function. Finally, every programme consists of several activities which "identify homogeneous types of work carried out by subsidiary organisations to produce the end products of a programme." (42)

In the following table, a programme structure for the management of

(38) J. Garrett, The Management of Government, Harmondsworth, Middx., England: Penguin Books, 1972, p.118

(39) Rose, op. cit., p.21

(40) Merwitz and Sosnich, op. cit., p.15

(41) United Nations (1970), op. cit., p.5

(42) Ibid.

statewide alcohol-related mission in the State of California, USA, is given as an example of a programme structure.⁽⁴³⁾

Table 3.1

- I. Prevention of Alcoholism
 - A. Education
 - B. Law and economics
 - C. Research and development
- II. Restoration of Early-State Alcoholics
 - A. Detection
 - B. Diagnosis, evaluation and referral
 - C. Treatment, medical
 - D. Rehabilitation
 - E. Research and development
- III. Care of Chronic Alcoholics
 - A. Detection
 - B. Diagnosis, evaluation, and referral
 - C. Treatment, medical
 - D. Rehabilitation
 - E. Domiciliary care
 - F. Research and development
- IV. Control of Other Alcohol Problems
 - A. Dependent families
 - B. Employment-related
 - C. Drinking and driving
 - D. Public intoxication
 - E. Felonies associated with drinking
 - F. Under-age drinking
 - G. Personal injuries
- V. General Research*
 - A. Medical research
 - B. Behavioural science research
 - C. Operational research
- VI. General Support*
 - A. Surveillance and measurement of alcohol problems
 - B. Planning and evaluation at state level
 - C. Planning and evaluation at community level
 - D. Other

* considered to be unallocable to programs I through IV

Programme structure is a very essential and fundamental step in programme budgeting. As Smithies says "The way in which a program structure is set up for the government as a whole, or for any major segment, can have profound effect on the decisions that are reached, so that the design of programmes should be regarded as an important part of the decision-making process."⁽⁴⁴⁾

(43) C.W. Churchman and A.H. Schainblatt, "PPB : How can it be Implemented", Public Administration Review, vol.29, no.2 (March/April 1969), p.180

(44) Smithies, op. cit., p.41

The design of programme structure, however, is both complex and difficult, according to Lee and Johnson:

The development of program structure is difficult. This is made evident simply by the fact that effort at constructing program structure date back more than half a century, but the "perfect" structure has yet to be devised ... Part of the problem in designing the structure is the need to develop an all inclusive one which at the same time is not overly detailed, particularly in terms of the numbers of levels. Each additional level by definition increases the complexity of the structure.⁽⁴⁵⁾

There is no single programme structure which fits all departments or local authorities. Every organisation needs a programme structure which meets its requirements. Even in one organisation, a programme structure needs to be reviewed from time to time to make the necessary adjustments as a result of environmental changes. Thus, programme structure, if it is to be effective, must be flexible.

In the United States, the Bureau of the Budget in its Bulletin No. 66-3 dated October 12, 1965, instructed the agencies to adopt the following programme structure:

- (1) Program categories are groupings of agency programs (or activities or operations) which serve the same broad objective (or mission) or which have generally similar objectives.
- (2) Program sub-categories are sub-categories which should be established within each program category, combining agency programs (or activities or operations) on the basis of narrower objectives contributing directly to the broad objectives for the program category as a whole.
- (3) Program elements are usually sub-divisions of program sub-categories and comprise the specific products (i.e. the goods and services) that contribute to the agency's objectives.

As it has been said before, it should be kept in mind that no one programme structure is considered as a standard design to be followed by every department. What is important is that programmes are classified according to an objective-orientated basis and each programme is divided to sub-programmes or activities which contribute directly to objectives.

(45) Lee and Johnson, op. cit., p.157

This type of classification would enable the analyst to make better use of various programmes in terms of costs and effectiveness.

3.3.3.2 ANALYTICAL ASPECTS

The second basic element in programme budgeting is the analytical process. The principal purpose of this process is to identify and examine alternative courses of action in terms of costs and benefits or effectiveness, and their implications in a systematic way. Thus, it is very essential to determine all the facilities, materials and staff required to carry out a specific programme. Report no. 7 of IMTA defines the process of programme analysis as:

- (i) systematic identification and measurement of a community's needs and systematic appraisal of existing resource allocations;
- (ii) identification of all alternative methods of achieving the ultimate objectives derived from the needs;
- (iii) comparative (quantitative and qualitative) evaluation of the total social and economic costs and benefits of those alternatives.⁽⁴⁶⁾

According to Rose, the essentials of good analysis are clearly defined objectives, a suitable criteria to choose between alternatives, a number of alternative courses of action, determination of costs and benefits of each alternative, and judgement and intuition.⁽⁴⁷⁾

Judgement and intuition are needed "in designing the models; in deciding what alternatives to consider, what factors are relevant, what the interrelation between these factors are, and what criteria to choose; and in interpreting the results of the analysis."⁽⁴⁸⁾

In this analytical process, the use of one or more analytical techniques, such as cost-benefit analysis, are usually required to choose between alternatives.

(46) Institute of Municipal Treasurers and Accountants, Programme Budgeting : The Approach, London : IMTA, September 1971, p.7

(47) Rose, op. cit., pp.28-29

(48) E.S. Quade, "System Analysis Techniques for Planning Programme Budgeting", in F. Lyden and E. Miller, (eds.), Planning, Programming, Budgeting : A System Approach to Management, Chicago : Markham Publishing Co., April 1968, p.305

The choice between alternative courses of action is a key feature of a PB system. There are usually two possible approaches that an analyst may adopt to decide between alternatives.⁽⁴⁹⁾

The first one is called the economy approach or the fixed utility approach. This economy approach is used when a specific target of effectiveness to be achieved is identified. Thus, the aim here is to choose the course of action which aims to achieve that target with the lowest costs.

The second approach is called the efficiency approach or the fixed budget approach. This approach is used when there is no fixed target of effectiveness to be achieved but there is a fixed amount of resources. In this case, alternatives are examined and evaluated in order to choose the alternative which produces the maximum benefits.

Cost-benefit analysis and cost-effectiveness analysis are the two techniques which have been applied to the problem of choosing between alternatives in government programmes.

The cost-benefit analysis technique aims to help the decision-maker to choose between various alternative projects to meet certain objectives.

To apply the cost-benefit analysis technique, it is important to know: (1) the various types of costs and benefits which should be included in the analysis; (2) the bases of evaluating and measuring these costs and benefits; (3) the discount rate used to determine the present value of future costs and benefits; and (4) the relevant physical, legal, administrative and financial constraints.⁽⁵⁰⁾

Costs and benefits, which are measured in money terms, can be divided into internal and external classes. Internal costs and benefits refer to the project's costs and benefits obtained by the organisation.

(49) H.A. Hovey, The Planning-Programming-Budgeting Approach to Government Decision-Making, New York : Praeger, (1968) , pp.51-52

(50) A.R. Prest, and R. Turvey, "Cost-Benefit Analysis : A Survey", The Economic Journal, Vol. LXXV (December 1965), p.686

External costs and benefits (externalities) are those which accrue to bodies other than the promoting body.

An important feature of the cost-benefit analysis technique is that all the advantages and disadvantages, as viewed from the standpoint of society, should be considered. Some of these have a market value, whilst others do not. That is one of the most difficult aspects of cost-benefit analysis. Thus, unlike project evaluation in private enterprise, a cost-benefit appraisal attempts to consider all external effects in terms of costs and benefits to the community. As an illustration, consider Table 3.2 below which shows some examples of internal and external costs and benefits of a transportation programme.

Table 3.2

Example of internal and external costs and benefits



Source : H. Georgi, Cost-Benefit Analysis and Public Investment in Transport, London : Butterworths, 1973, p.23

Having measured the total costs and benefits for each alternative, the ratio of benefits to costs can be determined. The project which yields

the highest ratio would be selected.

At this point a word is in order about the difficulty of measuring intangible costs and benefits. As Table 3.2 shows these include internal as well as external effects. Thus, one of the most difficult problems in using this technique is how to measure, in money terms, the benefits of, for example, the reduction in accident costs or the cost of noise disturbance as a result of a new motorway. The identification and measurement of such not easily quantifiable elements in cost-benefit analysis is very important since they can constitute a significant part of the costs and benefits of many government projects.

The cost-effectiveness analysis technique is similar to the cost-benefit analysis technique except in one aspect, that is, the output is measured in units other than money, e.g. deaths prevented, children educated and families housed.⁽⁵¹⁾ Because of the difficulty in measuring the output of government services in money terms, cost-effectiveness analysis is widely used in evaluating potential government's programmes.

Although these types of analytical tools have several limitations in their application to public programmes, they could play an important role in some cases. As Wildavsky puts it "... cost-benefit analysis may still be important in getting rid of the worst projects. Avoiding the worst where one can't get the best is no small accomplishment".⁽⁵²⁾

(51) Hovey, op. cit., p.55

(52) A. Wildavsky, "The Political Economy of Efficiency : Cost Benefit Analysis, System Analysis and Program Budgeting", Public Administration Review, Vol. 26, No. 4 (December 1966), p.298

Finally, as indicated earlier, it should be borne in mind the fact that these types of techniques are just a guide to help the decision-makers who must have good judgement and intuition to make the right decisions. What a decision maker needs to know are the consequences, costs and benefits of his choices to sharpen his judgement and intuition. And this could be provided by using such techniques.

3.3.3.3 INFORMATION ASPECTS

The third major element of programme budgeting is an efficient and comprehensive information system. Information and data are required for two main purposes. First, to provide the necessary data needed in the structural and analytical processes to identify objectives, to design programmes, and to identify and analyse alternative courses of action of accomplishing desired objectives so that the most effective and least costly alternative could be selected. Second, to measure and analyse the success and failure of programmes and projects in achieving the prescribed objectives.

The effectiveness and adequacy of an information system depends to a large extent on a good system of accounting in the government. Such a system will be able to provide the data needed which assists the decision-maker to plan, evaluate and control the use of limited resources.

Unfortunately, the existing system of accounting in most countries has so many deficiencies which make it inadequate to supply the necessary information to aid the policy maker. The traditional aim of governmental accounting has been to meet the accountability requirement. But

In relation to today's requirements, this traditional concept of accountability is somewhat narrow in its scope, since it relies upon the almost exclusive use of organization - cum - object classification in government accounting and budgeting. While those basic needs still remain unchanged today, accounting is being recognised increasingly in the fullest sense ... as a service to management. As such, it must be developed not only to satisfy accountability requirements but also to provide the various types of financial data that are essential for such

purposes as planning, programme analysis and selection, budgeting, efficient management at the various levels of government and control of costs and performance in relation to approved plans. (53)

An essential part of the new concept of accounting is a cost accounting system, which is needed to measure unit and total costs for the various programmes. Also, the availability of cost data would make it possible to develop standards of performance so that the actual performance could be evaluated against those standards. (54)

The significance of cost information in programme budgeting has been emphasised by US Controller General:

- (1) Cost information is necessary for the development and selection of the mix of inputs.
- (2) Cost information is necessary for control of the programmes.
- (3) Cost information provides some quantitative basis for evaluation where possible benefits cannot be measured and compared.
- (4) Cost information is necessary for traditional fund account purposes. (55)

As indicated earlier, the importance of a good system of accounting has been realised in developed nations as a first step toward an improved budgetary system. In developing countries, however, the situation is different as Waterston explains:

Out of date, complex, confusing or otherwise inadequate accounting systems widely used in less developed countries as well as poor accounting practices, also diminish the effectiveness of national budgets, either as instruments of financial control or as a means for giving effect to development plans. (56)

Such a serious deficiency in the accounting system available to government in these countries makes the task of decision making more difficult and less effective. And without real improvement in the information system as a whole in the government, an improved system of planning and budgeting would be very difficult, if not impossible, to be achieved.

(53) United Nations (1970), op. cit., p.1

(54) Enthoven, op. cit., p.62

(55) Quoted by Enthoven, op. cit., p.62

(56) Waterston, op. cit., p.216

To sum up, programme budgeting as a management system seeks to improve the government decision making process to make better allocation of available resources. It does not make decisions, it does not replace good judgement and intuition, it is only a means of assisting the management to make better decisions. The effectiveness and the success of such a system depends on several factors. A well developed long-range planning practice, a good information and data system, a sufficient analytical capacity, a functional and economic classification system of the budget, and a certain level of managerial skills are fundamental requirements for a successful programme budgeting system.

3.3.3.4 EVALUATION

Generally speaking, there are two major difficulties in implementing a programme budgeting system for government activities, the difficulty of defining objectives, and the difficulty of measuring outputs or benefits.

It is a well known fact that the objectives of government departments or agencies are more complex and more difficult to define than those of business firms. Unlike the business enterprise, the government department does not aim to make or increase profit. Every government unit is working toward achieving a certain set of social, cultural and economic objectives as a part of an overall national objective, e.g. economic development.

Thus, within a programme budgeting context, a government department is faced with two major problems. The first is how to define the overall objective and sub-objectives of the department, and how to carry out the various activities to accomplish those goals. The second problem is how to measure the output of such activities to find out how effective they were in achieving the department's objectives.

Programme budgeting was adopted by the US Federal Government in 1965 as a promising and revolutionary budgetary system to replace the traditional line-item budget system. Undoubtedly, the success of PB at the US Department

of Defence was the main drive for the President's decision to introduce the new system to the entire federal government in 1965. Unfortunately, PB did not achieve the success that was expected. Thus, the American experience with programme budgeting had produced both positive and negative results. A brief examination of the reasons behind these two contradictory outcomes seems in order.

In the US Department of Defence, the development of PPBS has resulted in the more effective use of the available resources.⁽⁵⁷⁾ This successful story of programme budgeting can be attributed to three main factors.

First, the Secretary of Defence at that time came from the private sector with a strong belief in the value of analytical techniques in improving the quality of allocation decisions in government departments.⁽⁵⁸⁾ He was very aware of the limitation and shortcomings of the traditional budgetary approach. Programme budgeting was considered to be the ideal approach to adopt. The support of the man at the top and his belief in PB, therefore, has played a major role in its effectiveness in the department.

Secondly, the Department at that time employed the required analytical skills to develop and implement the new system. Thus, analytical studies, which are the corner stone for any effective PB system, were carried out for the defence programmes by highly qualified economists and system analysts. Hence the two major obstacles to a PB system, which were mentioned earlier in this section, were overcome as a result of these analytical skills.

Thirdly, the PB system at the Department of Defence was carefully designed to meet the problems and functions of the department. The people there did not adopt a foreign and ready-made system of PB. Moreover, the

(57) Schick (1973), op. cit., p.147

(58) Ibid.

organisational changes in the department during the 1950's had paved the way for PB to complement the structure of the department.⁽⁵⁹⁾

On the other hand, the unsuccessful attempt by the civilian departments to install a PB system can be attributed to three major factors. They are: the characteristics of the American system of government, the way in which PB was introduced, and the difficulty of applying the analytical techniques to government programmes mainly because of a shortage in skilled personnel.

As regards the American system of government, the existence of the federal, state and city governments with their different laws and legislations has impaired the effectiveness of programme budgeting.⁽⁶⁰⁾ Also, the Congress insisted that the budget should be submitted in the traditional form. Thus, departments and agencies had to seek their funds on this basis and not on a programme basis.⁽⁶¹⁾ Furthermore, the Congress resisted any attempt to develop a system of long-term expenditure planning which is considered a very essential part of any PB system.⁽⁶²⁾

The second reason behind the poor achievement of the PB system in the federal government is related to the way in which PB was introduced. There is little doubt that the decision to introduce a standardised and ready-made system of PB to all departments and agencies at the same time without sufficient preparation was a major factor in its failure.⁽⁶³⁾ As Garrett pointed out, "Considerable harm was done by the way in which PPB was introduced".⁽⁶⁴⁾ Indeed, PB was considered by the civilian departments as a foreign system imposed upon them by the Bureau of the Budget without giving them the chance to understand it or to consider it within their

(59) Ibid.

(60) For further discussion see Garrett, op. cit., p.134

(61) Ibid., p.135

(62) Ibid., p.132

(63) Schick, 1973, op. cit. p.147

(64) Garrett, op. cit., p.134

ability and with reference to their problems and without providing the opportunity to relate the new concept to their existing budgetary process.⁽⁶⁵⁾

Finally, a major aspect in the failure of PB in the civilian agencies was the fact that analytical techniques, such as cost-benefit analysis, were difficult to apply to social programmes while "good analysis and data were in short supply."⁽⁶⁶⁾

As a result, PB in the US Federal Government was officially terminated in 1971 after five years of operation. The official death notice was issued by the Office of the Management and Budget on June 21, 1971 in a memorandum accompanying circular A-11. According to that memorandum, "Agencies are no longer required to submit with their budget submissions the multi-year program and financing plans, program memoranda and special analytical studies".⁽⁶⁷⁾

But, although the success of programme budgeting as applied by the civilian departments was not as expected at the beginning, some benefits have been obtained. Mosher lists the following achievements:

Forcing, or at least encouraging, more clearly defined and thoughtfully considered statement of objectives;

Forcing the development of indicators and quantitative measurements of outcomes of governmental programs;

Encouraging the development and installation of better system for gathering information about both costs of programs and their effects.⁽⁶⁸⁾

Also, Hancock has the following to say:

If I had to sum up my own overall assessment of the American experience to date, I would say that it has shown that PPBS

(65) Schick (1973), op. cit., p:147

(66) Ibid., p.149

(67) Ibid., p.146

(68) F.C. Mosher, New Aggregated System for Planning, Programming, Budgeting, Fifteenth International Congress of Administrative Science, 1971, as quoted by D. Norvick, Current Practice in Program Budgeting (PPBS), London : Heinemann, 1973, p.52.

has the potential to make a significant contribution to the improvement of the planning, decision-making and management control processes, in government and other non-profit making organisations.⁽⁶⁹⁾

As for developing countries, the system of budgeting which exists in most of those countries is inadequate because it is still based on a traditional concept. To use their limited resources more efficiently and more effectively, developing countries must improve their budgeting procedures.

Thus, in addition to the difficulties facing a PB system, one must recognise the other deficiencies that exist in developing countries which have been observed by Burkhead:

So often, in under-developed countries, the basis from which budgeting should proceed is lacking. There is a shortage of accounting and administrative skills; there are gaps in the hierarchy of government organisation; there is an inadequate sense of personal moral responsibility for the conduct of government affairs. In this situation it is not possible to build a budgeting system on the basis of established techniques and with existing skills ... The challenging task is to make budgeting a catalyst that will improve and strengthen the developmental program.⁽⁷⁰⁾

Furthermore, in many of these countries the integration between development, planning and budgeting does not exist. It is widely agreed that a more close relationship between planning and budgeting must be achieved.

Long-range planning without regard for the realities of annual budget implementation becomes an academic exercise of little operational value; budget-making which disregards the co-ordinated needs of the development plan tends to fragmentize the energies of the nation and to retard progress toward national objectives.⁽⁷¹⁾

Therefore, there are several pre-requisites for the successful introduction of a new budgetary system in a developing country. But there

(69) I.C. Hancock, "The American Experience", in IMTA, Programme Budgeting : Some Practical Problems of Implementation, London : IMTA, June 1971, p.19

(70) Burkhead, op. cit., p.455

(71) R.S. Herman, "Two Aspects of Budgeting", Indian Journal of Public Administration, vol.viii, no.3 (1962), quoted by Steiner, op. cit., p.312

is one important point to be emphasised here. That is, a critical examination of the existing system of budgeting and a careful evaluation of the organisational structure and its ability to accept such improvement must be first made. As Enthoven argues:

Before more refined budgetary systems are installed, a careful appraisal should be made of their potential for the country, without abandoning the conventional budget ... Basic accounting skills may first have to be improved, and the staff and organizational structure strengthened. Although PPBS is as yet very complicated for many countries, especially developing nations, it is a goal towards which the budget accounting system should be geared in the years ahead.⁽⁷²⁾

Perhaps, the British experience in developing a successful system of long term planning for public expenditure (PESC) and a system of programme analysis (PAR) offers a valuable example to be studied by developing nations.⁽⁷³⁾

Also, a lot of benefit could be gained from the Canadian experience with programme budgeting. In that country, it has been claimed, more successful results have been achieved due to the way that PB has been introduced.

In Canada, a somewhat less obtrusive, and in some ways a more successful route to PPB has been followed. One substantial advantage of the Canadian approach to PPB was that it followed a series of reforms of the management of Canadian government rather than being introduced as an overlay to existing structures and procedures.⁽⁷⁴⁾

It is evident, thus, that a step by step approach to improve the budgetary process seems to be the appropriate path to be followed. Moreover, any proposed approach for introducing programme budgeting in an organisation should be made to meet the needs and the environment of that organisation because "there can be no ready-made PPBS package available for instant installation".⁽⁷⁵⁾

(72) Enthoven, op. cit., p.53

(73) Discussed in some detail in the next chapter

(74) Garrett, op. cit., p.140

(75) Hancock, op. cit., p.17

The following gradual changes are proposed to take place before a commitment to a full system of PB be made:

1) The existing accounting system should be improved to play its important role as the major source of information and data for both purposes, analysis and evaluation.

2) Public expenditure planning should be performed on a long-term basis and should include all public sectors.

3) A functional and economic classification system of the budget should be adopted. According to this system, expenditures are classified according to the objectives they serve, (functions, programmes, and activities), and both current and capital expenditures are segregated from each other.

4) A close link between planning and budgeting must be established. The annual budget is a detailed financial statement which should be prepared from the long-range plans. Therefore, without co-ordination between these two functions, neither will be effective.

5) Making provisions for training governmental staff to cope with the new responsibilities. The training programmes might be arranged locally in organised courses or a certain number of staff could be sent abroad for training in developed countries.

6) Development of an adequate analytical capacity to carry out the task of programme analysis.

3.4 NEW TRENDS IN BUDGETARY REFORM

As a result of the difficulties and problems faced by government departments in applying the PB system, the new trend is to look for a less sophisticated, but still effective, approach to improve government allocation decisions. Management by objectives (MBO) and zero-base budgeting are two promising approaches which have been considered recently by government departments in the USA. These two concepts are briefly

discussed in the following two sub-sections.

3.4.1 MANAGEMENT BY OBJECTIVES (MBO)

Management by objectives is yet another attempt aiming for increasing the quality of government services. "MBO is a part of continuing search for management approaches to answer the classic political question 'what should government do? And how?'. "(76)

MBO has had a long history in the private sector, as early as 1920 when it was used by the DuPont Company and later by General Motors in the mid 1920's.(77) In the public sector, however, it has a more recent history.

After the bad results of the PPBS application in the US Federal Departments in the early 1970's, MBO was under serious consideration by government departments as an appropriate approach for more efficient government services. The successful application of MBO in the US Department of Health, Education and Welfare (HEW) and its positive results since 1971 indicates the potential of MBO as an effective approach in managing the government services.(78)

According to Brady, the goals of MBO as implemented in the HEW Department were:

- . To identify clear, measurable objectives
- . To monitor progress toward objectives that had been agreed on by both managers and policy makers
- . To effectively evaluate results.(79)

(76) C.A. Newland, Policy Program Objectives and Federal Management: The Search for Government Effectiveness, Public Administration Review, vol.36, no.1 (January/February 1976), p.26

(77) P.F. Drucker, "What Results Should you Expect? A Users guide to MBO", Public Administration Review, vol.36, no.1 (January/February 1976), p.12

(78) R.H. Brady, "MBO Goes to Work in the Public Sector", Harvard Business Review, vol.50, no.2,(March/April 1973), pp.65-74

(79) Ibid., p.67

Although the Department had faced some problems in defining objectives and measuring benefits, "MBO has proved to be extremely helpful in managing the affairs of HEW."⁽⁸⁰⁾

Generally speaking, a MBO system consists of three basic elements; setting objectives, tracking progress, and evaluating results.⁽⁸¹⁾

Setting the organisation's objectives is difficult but a very crucial step in the MBO system. This task is obviously more difficult in a public organisation. Unlike the private sector, in the public sector the objective of maximising the return on investment usually does not exist and when it does exist in some cases, it would be considered as a secondary rather than primary objective. The primary objective of a public sector organisation is to provide sufficient services or goods to meet public needs.

In this stage the decisions to allocate the necessary funds are also made to accomplish those objectives in the following fiscal year.

Monitoring progress is the second stage in the MBO approach. Here progress is tracked in a regular basis, e.g. every month, throughout the year to measure the progress toward accomplishing objectives. Such practice would ensure that any mistake could be overcome before it would become too late to take the right decision.

The third and final stage is the evaluation of actual results against objectives. In this process the success or failure of the organisation in accomplishing its objectives are reported at the end of each fiscal year. Reasons for failing to meet any objective must be clearly stated so that future failure can be avoided.

(80) Ibid., pp.67-68

(81) Newland, op. cit., p.26

Information obtained in this and the previous process are very valuable to the first stage, setting objectives.

Having described briefly the three main stages of a MBO system, it is necessary to mention an important characteristic of the MBO system which makes it a different approach from programme budgeting. This was observed by, among others, Sherwood and Page:

... it (MBO) is not a "whole" system for managing. It is an instrument with basic elements of planning, co-ordination and appraisal of performance. In public and private organisations, MBO is used primarily for short-range (Tactical) planning of operations. (82)

Thus, in this sense it can be said that MBO, like performance budgeting, is concerned with efficiency. (83)

At this point, it is appropriate to make a comparison of MBO and PB. The following table gives a clear and simple comparison between the two approaches.

(82) F.P. Sherwood and W.J. Page. "MBO and Public Management", Public Administration Review, vol. 36, no.1 (January/February 1976), p.5

(83) Ibid., p.6

Table 3.3

Comparison of PPB and MBO Models

	<u>PPB</u>	<u>MBO</u>
Planning	Comprehensive, five year plans	Partial, annual, some five year plans
Authority structure Experience demands	Centralized, staff statistical sophistication	Decentralized, line managerial common-sense, arithmetical
Program comparison capacity	External, benefit/cost	internal, quantity produced
Fixed coverage	Comprehensive and allocation	Partial, person days, and some supporting costs

Source: J. McCaffery, "MBO and the Federal Budgetary Process", Public Administration Review, vol.36, no.1 (January/February 1976), p.36

3.4.2 ZERO-BASE BUDGETING

As indicated earlier, in a traditional or incremental budgeting context, government departments and agencies consider current expenditure levels as an established base and analyse in detail only proposed increases or decreases. Zero-base budgeting, on the other hand, requires each head of department or agency "to justify his entire budget request in detail and puts the burden of proof on him to justify why he should spend any money." (84)

Zero-base budgeting was first used in government by the US Department of Agriculture in spring 1962. (85)

The concept was aiming to:

... examine all programs at the same time and from the ground up to discuss programs continuing through inertia or design that did not warrant being continued at all or at their present level of expenditure ... As a result, relative priorities of total amounts for all programs could be considered

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- (84) Peter Pyhrr, Zero-base Budgeting: A Practical Management Tool for Evaluating Expenses, New York: John Wiley & Sons, Inc., 1973, p.xi
- (85) A. Wildavsky and A. Hammann, "Comprehensive Versus Incremental Budgeting in the Department of Agriculture", in Lyden and Miller, op. cit., p.140

not merely amounts of increase and decrease for some programs.⁽⁸⁶⁾

Unfortunately, the department's attempt to develop an effective zero-base budgeting was not successful. Some people in the department at that time "complained that they had done a lot of extra work, yet nothing had been changed as a result of their endeavours."⁽⁸⁷⁾

Nevertheless, Pyhrr in a recent book on zero-base budgeting argues that the attempt by the Department of Agriculture to implement the concept of zero-base budgeting in 1962 was not successful because "it did not resemble the methodology used successfully in both industry and government as described in this book".⁽⁸⁸⁾

In industry zero-base budgeting was developed at Texas Instruments in 1970 by Peter Pyhrr who was Control Administrator in the company. He wrote an article in 1970 describing the process of zero-base budgeting as applied at Texas Instruments.⁽⁸⁹⁾ This successful attempt attracted Mr. J. Carter, then Governor of Georgia, who was very keen to improve the budgetary process for Georgia. He invited Mr. P. Pyhrr to come to Georgia to develop the new concept. Thus, zero-base budgeting was first used for the entire executive budget for the State of Georgia in the year 1972/3.

According to Sver and Brown the department heads of the State of Georgia listed the following three major advantages of zero-base budgeting:

1. the establishment of a financial planning phase prior to budget preparation
2. an improvement in the quality of management information
3. an increase in the budget involvement of personnel at the activity level.⁽⁹⁰⁾

When Mr. J. Carter became the President of the United States, it was widely anticipated that he would try to introduce zero-base budgeting to

(86) Ibid., p.150 (87) Ibid., p.154

(88) Pyhrr (1973), op. cit., p.xi

(89) P. Pyhrr, "Zero-base Budgeting", Harvard Business Review, vol.48, no.6 (November/December 1970), pp.111-121

(90) J.D. Sver and R.L. Brown, "Where Does Zero-base Budgeting Work?", Harvard Business Review, vol.55, no.6 (November/December 1977), p.80

the Federal Government as a means of improving the state of federal budgeting.

The process of zero-base budgeting has two major steps:

1. Developing "decision packages". This step involves analysing and describing each discrete activity-current as well as new, in one or more decision packages. (See appendix G)
2. Ranking "decision packages". This step involves evaluating and ranking these packages in order of importance through cost/benefit analysis or subjective evaluation.⁽⁹¹⁾

To be an effective process, zero-base budgeting requires top-management support, careful and well prepared design of the system, and good management.⁽⁹²⁾

In relation to PPBS, it has been said that although a PPB system ensures the effectiveness of the allocated funds in achieving specific objectives, it does not show the procedures of performance, i.e. "to transform these objectives into an efficient operating plan and budget and allows managers to evaluate the effect of various funding levels on programs and program elements."⁽⁹³⁾ Zero-base budgeting is proposed to fill this gap by providing the necessary information about all functions and operations. In other words, zero-base budgeting and PPBS can be used at the same time to ensure the effective as well as efficient use of resources.

To conclude this section, it is safe to say that zero-base budgeting could make positive contributions toward the better use of resources. Perhaps, the most difficult problem in implementing zero-base budgeting is the lack of time to go through the enormous amount of material and information generated throughout the process. It is well known that time in government is always limited.

(91) Pyhrr (1973), op. cit., p.5

(92) Ibid., p.25

(93) Ibid., p.153



This difficulty, however, can be reduced by adopting a limited approach to zero-base budgeting. Unlike some other budgetary systems, e.g. PB, zero-base budgeting could be applied to some selective areas and services and not necessarily to the whole organisation.⁽⁹⁴⁾ And because time and resources are always limited, this has been considered as a primary advantage of zero-base budgeting which allows any organisation interested in this concept to adopt the scope that suits the time and resources available.

3.5 SUMMARY

This chapter has shown that the inadequacy of the traditional budgetary system has led to various developments to improve it. Historically, there are two major reforms in government budgeting, performance budgeting and programme budgeting.

The principal objective of PB is to provide better information to help policy makers to take the right decision at the right time and thus to accomplish the right results. This objective has been, to a large extent, achieved in the US Department of Defense following the successful introduction of PPBS in 1961. This success encouraged President Johnson to decide in 1965 to install the new system in all federal departments. The result, however, was generally disappointing. There are a number of factors which have contributed to the success implementations of PPB system in the US Department of Defense. One major factor was the support and encouragement of the boss at the top. Such an important factor was obviously one of the reasons for the disappointing results in the federal departments.

It should be made explicit, once again, that theoretically speaking nothing is wrong with the approach itself, rather it is the implementation's

(94) Suver and Brown, op. cit., p.82

procedures and the organisational structure which did the most harm.⁽⁹⁵⁾

In summary, the limitations and shortcomings of the traditional system of budgeting is being widely recognised by developed countries because it is no longer considered as an effective planning device. And because it emphasises the financial control (accountability) function, it has a limited value as a source of information to the decision-makers.

As a response to these limitations, attempts have been made to overcome them and to make the budget an effective planning device for better resource allocation. The development of the PB system in the 1960's has been considered as a major reform to improve the budget process.

Most developed countries have introduced reforms in one way or another. On the other hand, most, if not all, developing countries did not introduce any budgetary reform and their budgetary process is still a traditional one.

As a consequence of the difficulties facing PB, other new developments were started in the 1970's. These include zero-base budgeting and management by objectives(MBO).

This chapter has been devoted to discuss these new developments by examining and reviewing the current literature. But because the British approach toward the improvement of the government budgeting is different from the American, parts two and three of this study are devoted to discuss the British experience in both central and local government.

(95) see section 3.3.3.4

PART TWO

BUDGETARY DEVELOPMENTS IN BRITISH CENTRAL AND LOCAL GOVERNMENT:
THEORETICAL ASPECTS

CHAPTER IV
BUDGETARY DEVELOPMENTS IN
BRITISH CENTRAL GOVERNMENT

4.1 INTRODUCTION

The British economy, as any other modern economy, can be classified as a 'mixed economy'. The Government is becoming more and more powerful and its role in the economic and social life of the country has changed dramatically since World War Two. This situation is evident by the enormous increase in public expenditure on the one hand, and by the fact that many major industrial establishments are now government-owned corporations, on the other.

To accomplish its social and economic goals, the government seeks to make the best use of its available resources by effective planning and control of public spending. In this respect, it attempts to increase its knowledge in order to manage the economy more efficiently.

.... the more the area of the unforeseen can be reduced by a knowledge of the past and an understanding of the present, by careful and intelligent planning, and by informed and reasoned forecasting and decision-making the better and more efficient will be the management that results.⁽¹⁾

In Britain, after World War Two, the budget had become a powerful and effective device used by the Government to solve some of the country's economic problems; such as the balance of payments, unemployment, inflation and so on. In the mid 1950's, however, there was a growing dissatisfaction with the existing system of public expenditure control. Such dissatisfaction was reflected by the appointment of the Plowden Committee in 1958 to report on the control of public expenditure. This appointment was the

(1) Herbert R. Balls, "Planning, Programming, and Budgeting in Canada", Public Administration, vol.48 (Autumn 1970), pp.303-304

result of a recommendation made by the Select Committee on Estimates in session 1957-58. The Plowden Report was published in 1961 containing the Committee's proposals to improve the control of public expenditure.

Perhaps it is safe to say that the substantial growth in public spending after World War Two was a major factor to cause this dissatisfaction with the system of public expenditure.

The central government as the manager of the economy, has to formulate its policy and strategy in the light of national objectives. Decisions must be made to allocate national resources between various activities, e.g. defence, education and housing, which contribute to the accomplishment of the overall national objectives. The aim is to maximise the satisfaction the public receive from the use of national resources. Another level of decision making in government is the allocative decision-making process in individual departments which involve the allocation of the department's total budget among the various programmes, e.g. the allocation of the education budget between higher education, further education, primary education, research and so on.

All the efforts and attempts which have been made in the last two or three decades aimed to improve those levels of decision making by providing more and better information. Indeed, PPBS, PESC* and PAR*, for example, have been developed to make the government's plans more effective by analysing, in depth, all promising options to achieve specific objectives.

Before the introduction of such developments, governments were concerned mostly with the efficiency, in terms of costs, of carrying out their activities. Efficiency is, no doubt, an essential objective to attain, however, to perform the wrong task efficiently might be as harmful

* discussed later in this chapter

as performing the right task inefficiently. Thus, the first step is to determine the proper direction of activities, by long term planning and analysis of alternatives, and then the next step is to carry these activities efficiently.

Two major developments in British Central Government occurred in the sixties. The first was the establishment of a new system of public expenditure survey, in 1961 immediately after the publication of the Plowden Report, in which a regular annual survey, known as PESC (Public Expenditure Survey Committee), was the major proposal. Since 1961 an annual survey of public expenditure, covering all areas of the public sector, has been an accepted practice of the Government. The other development was the introduction of various sophisticated analytical techniques in some departments to provide more and better information to be used in the resource allocation decisions.

Before these major developments, individual developments were introduced. According to Bridgeman, the first took place in 1955 when a major roads programme was made to cover several years ahead. Also, in 1957, a five year economic assessment was developed. The Defence Ministry in 1958 had adopted a five-year costing system to plan its expenditure.⁽²⁾ Nevertheless, as Bridgeman says, "the integration of the individual developments did not happen until after the report of the Plowden Committee".⁽³⁾

The purpose of this chapter is to investigate and examine these major developments in British Central Government and its contribution to the improvement of government decision-making.

This chapter is divided into five main sections:

(2) J.M. Bridgeman, "Planning-Programming-Budgeting in the United Kingdom Central Government", in Novick (1973), op. cit., p.90

(3) Ibid.

1. The reorganisation of Central Government as proposed by the White Paper of October 1970
2. Public expenditure and its trend and growth, the Plowden Report, and the introduction of PESC system
3. The establishment of the Central Policy Review Staff (CPRS) and the Programme Analysis and Review (PAR)
4. The development of programme budgeting (PB) in Ministry of Defence and in the Department of Education and Science
5. Summary, Evaluation and Conclusion

4.2 THE REORGANISATION OF CENTRAL GOVERNMENT

The White Paper of October 1970 on the reorganisation of Central Government⁽⁴⁾ has indicated the government's intention to improve and increase the efficiency of the Central Government through a reievew of its functions and organisation.

According to that White Paper, the aims of such a review have been:

- (i) To improve the quality of policy formulation and decision-taking in government by presenting Ministers collectively in Cabinet and individually within their departments, with well-defined options, costed where possible, and relating the choice between options to the contributions they can make to meeting national needs. This is not confined to new policies and new decisions, but implies also the continuing examination, on a systematic and critical basis, of the existing activities of government.
- (ii) To improve the framework within which public policy is formulated by matching the field of responsibilities of government departments to coherent fields of policy and administration.
- (iii) To ensure that the government machine responds and adapts itself to new policies and programmes and these emerge within the broad framework of the main departmental fields of responsibility.⁽⁵⁾

In order to fulfil these aims, the Government has realised that some important changes in the government machinery should take place. The main changes are discussed below.

(4) G.B., White Paper on the Reorganisation of Central Government, Cmd. 4506, London : HMSO, October 1970

(5) Ibid., p.3

First, more attention should be given to the analytical approach toward government activities.

The basis of improved formulation and decision-taking is rigorous analysis of existing and suggested government policies, actions and expenditure. This analysis must test whether such policies or activities accord with the Government's strategic aims and, indeed, whether they are suitable for government at all ...⁽⁶⁾

Secondly, the Government emphasised the importance of the allocation of responsibilities between departments according to a functional principle, that is to say "government departments should be organised by reference to the task to be done or the objective to be attained".⁽⁷⁾ Moreover, the need for unification of functions, i.e. grouping of functions together, within each department was stressed so that the "comprehensive approach in government organisation"⁽⁸⁾ can be achieved. The White Paper suggested in some detail the various changes that needed to be introduced in the organisation of government departments in order to attain this important aim.

Thirdly, the problem of policy formulation and decision-making was presented as a major difficulty facing the government. An improved and comprehensive information system to help Ministers in making decisions was the proposed solution to this problem. "The necessary basis for good government is a radical improvement in the information system available to Ministers".⁽⁹⁾

Finally, the White Paper stated that the proposed changes of the government organisations would need a period of stability in order to achieve the objectives of such changes.

(6) Ibid., p.4

(7) Ibid.

(8) Ibid., p.5

(9) Ibid., p.6

4.3 PUBLIC EXPENDITURE AND THE PESC SYSTEM

The level of public expenditure reflects the range of various activities carried out by governments and their intervention in the national economy. As a matter of fact, the level has been growing rapidly in all countries to meet the increasing demand for services by the public. As has been shown in Chapter Two, this situation has created an increasing government intervention in more and more activities. To take Britain as an example, the tremendous increase in public expenditure started during the post-war period when the government introduced the National Health Service, took over a number of major and large industries known as nationalised industries and so on. All these actions were mainly attributed to the inadequacy of the private sector to provide the necessary level of services to the public.

A simple comparison between total public expenditure as a percentage of G.N.P. over a period of time will show the growth of public expenditure. In 1900, public expenditure was £280m or 14.4% of G.N.P., the corresponding figures for 1955 were £6,143m or 36.7%, while in 1975, public expenditure reached £54,465 or 52.3% of G.N.P.

Obviously, such a large amount of money must be wisely directed and allocated to achieve the maximum benefit. Any ad hoc decisions on allocation of such huge amounts could have regrettable consequences. Therefore, an adequate and effective system to plan, manage and control public expenditure is necessary.

In its 1958 Report on Treasury Control of Expenditure, the Select Committee had emphasised that the existing system of management and control was inadequate mainly because on the one hand "the tendency is for expenditure decisions to be taken piecemeal"⁽¹⁰⁾, and on the other hand, public spending has grown enormously after the Second World War.

(10) The Plowden Report, op. cit., p.5

It was realised that such an increase required new procedures and rules to cope with it since the existing system of public expenditure at that time was initially developed in the nineteenth century.⁽¹¹⁾ Thus, the Committee recommended that an independent Committee should be appointed to investigate and report on the matter. As a result, the Plowden Committee was appointed in the summer of 1959. Its job was to review, discuss, point out the weaknesses and deficiencies of the system, and to recommend any proposals that would "bring the growth of public expenditure under control and how to contain it within such limits as the Government may think desirable".⁽¹²⁾

The report was published in July 1961. The fact that public expenditure has gained a different and important role in the economic life of the nation since the 1940's, was emphasised by the Report. Specifically, three elements which had caused this change were mentioned. In the first place, public expenditure has grown rapidly as a result of local authorities expenditure, and the creation of nationalised industries.

Secondly, the government nowadays is involved in a number of sophisticated projects, both technological and commercial, which need to be given careful consideration and analysis. Invariably these projects require a different treatment than that given to the traditional services provided by the government and the length of the projects often extend for several years.

Finally, the theory of public finance has brought an increasing emphasis on the role of public expenditure and taxation as effective devices to influence the economy.⁽¹³⁾

All this implies a need for better decisions to replace the existing discrete ones on public spending. This was the main conclusion of the

(11) Ibid.

(12) Ibid.

(13) Ibid., p.6

Plowden Report.⁽¹⁴⁾

In order to carry out its task, the Committee analysed public expenditure in different departments to examine the actual management control of expenditure in order to determine the weaknesses and shortcomings. Also, some comparisons between departments in handling similar jobs were made to see the degree of efficiency.

The Report first called attention to the inadequacy of the traditional system of public expenditure, i.e. piecemeal decisions, by which the consideration of departments expenditure was undertaken separately. They argued that without looking at the public expenditure as a whole, decisions would be ineffective.

The crucial contribution of the Plowden Report was its recommendation that regular surveys of public expenditure as a whole should be conducted on a long-term basis with regard to the prospective economic resources and that these surveys should be considered as a guide to policy makers, and not a substitute to their judgement, as the report has stressed.

In addition to this main recommendation, there were three more proposals made by the Report which are worth mentioning. (a) The long-term economy and efficiency in the public sector requires the greatest practicable stability of decisions on public expenditure. (b) Improvements are required in analytical problem solving techniques in order to increase the efficiency of the public services and to contribute to a better understanding by Parliament and the public. (c) More effective machinery for collective decision making is required.⁽¹⁵⁾

The Committee believed that the results of the proposed reconstruction of the traditional system would take a number of years before they can be seen to be working.

(14) Ibid., p.5

(15) Ibid.; p.7

The Government soon adopted the main recommendation of the Committee and the annual survey of public expenditure started in 1961. The first of the White Papers on public expenditure (PESC) was published in 1963. Since that time, the PESC survey has been an accepted practice for every government coming to office. Improvements and developments in the methodology and presentation of course have been taking place in the survey. Indeed, it is becoming a more and more sophisticated and effective instrument for government decision making.

The Government of 1966 published a White Paper on the planning and control of public expenditure to strengthen the PESC system and to re-shape public expenditure system which involved:

- (a) A decision to limit the total growth of public sector expenditure to an average of $4\frac{1}{2}$ per cent a year at constant prices from 1964-65 to 1969-70 ...
- (b) Within this total, a long term allocation of resources to each of the main public services to provide the quantitative framework for their development.
- (c) A strict review of individual programme, in particular, of defence.
- (d) The preparation of Estimates within specified limits so as to ensure their consistency with (a) and (b).
- (e) A review of the investment of the nationalised industries to fit in with the national plan.
- (f) More effective implementation of the programmes and on improvement of financial control, to get better value for money.⁽¹⁶⁾

The important step was achieved through the development of the PESC system to look at public expenditure as a whole, by estimating all future implications of current decisions and by considering as many alternatives as possible in order to choose the most promising options in achieving national objectives.⁽¹⁷⁾

A regular survey of the public sector has been in existence since 1963 following the recommendation of the Plowden Committee. The purpose of this survey was pointed out by the Chancellor of the Exchequer

(16) G.B., White Paper on Public Expenditure : Planning and Control, Cmnd. 2915, London : HMSO, April 1969, pp.18-19

(17) Ibid., p.2

in 1961. "The object of carrying out the study (PESC) ... is to see how we can best keep public expenditure in future years in proper relationship to the growth of our national product."⁽¹⁸⁾

The White Paper in January 1975, stated more clearly the main purpose of the annual survey of public expenditure as follows:

- to strike the right balance between the demand placed on resources by public expenditure and by exports, investment and private consumption;
- to bring the public expenditure programmes into line with the Government's general priorities and objectives.⁽¹⁹⁾

The first White Paper on public expenditure was published in 1963. In 1969, the Government proposed that a regular White Paper on public expenditure should be published at the end of each calendar year. The first in this series was published in December 1969.⁽²⁰⁾ Since that time, there has been a White Paper on public spending at the end of each year.

By comparison to other major developed countries, the UK is considered more advanced in this respect. A memorandum published by the Treasury in 1976 on public expenditure planning practiced in five Western countries, the USA, France, West Germany, the Netherlands, and Denmark revealed that none of these countries "publish expenditure plans which are at all similar in time scale, or in detail to those in our Public Expenditure White Paper".⁽²¹⁾

Goldman has also claimed that the White Paper on public expenditure "is comprehensive, consistent, sophisticated, dynamic, operational and

(18) White Paper on Public Expenditure in 1963-64 and 1967-68, Cmnd. 2235, London : HMSO, December 1963, p.2

(19) White Paper on Public Expenditure to 1978-79, Cmnd. 5879, London : HMSO, January 1975, p.1

(20) White Paper on Public Expenditure 1968-69 to 1973-74, Cmnd. 4234, London : HMSO, December 1969

(21) HM Treasury, The Presentation of Public Expenditure Plans in Selected Countries, Memorandum submitted by HM Treasury to the Expenditure Committee, London : HMSO, December 1976, p.1

strategic. Collectively, these qualities make up a unique document ahead of anything to be found anywhere in the world."⁽²²⁾

The system has also been praised in another source.

By international standards the PESC survey is already a sophisticated method of examining public expenditure at least in some respects; it looks forward for five years deals generally with all public expenditure rather than central Government expenditure and groups expenditure into functional blocks.⁽²³⁾

Such claims would be better clarified by examining the main features of the system, its procedures and its contribution to the improvement of the quality of government decisions.

The main features of the PESC system are summarised as follows⁽²⁴⁾:

1. The surveys are comprehensive, that is to say they cover the whole public sector, central government, local authorities, and public corporations. The objective is to consider all public expenditure elements and at the same time to identify priorities to make the best allocation of resources among competing claims.
2. The annual survey covers a period of five years ahead to enable the decision makers to see all possible future commitments and the implications of current decisions on long term programmes. Such programmes require not only the initial cost, but also the regular annual costs. The failure to make plans to secure the necessary cash for future payments would result either in the cancellation of some projects with the loss of the initial costs, or some of these projects would be badly affected. In addition, the estimates of future costs of a project are essential in order to determine the total cost of a project (initial costs and subsequent payments) to be judged against its benefits.

(22) Sir Samuel Goldman, "The Presentation of Public Expenditure Proposals to Parliament", Public Administration, vol.48 (Autumn 1970), p.254

(23) Department of Education and Science, Output Budgeting for the Department of Education and Science, Education Planning Paper No. 1, London : HMSO, 1970, pp.3-4

(24) G.B., Green Paper on Public Expenditure : A New Presentation, Cmnd. 4017, London : HMSO, April 1969, pp.18-19

Thus, the extension of the time scale beyond one year in the planning of public expenditure is inevitable in order to make effective decisions. It should be borne in mind, however, that estimates for the first three years of the survey represent fairly firm decisions, and expenditure decisions for the last two years are estimated on a provisional basis.⁽²⁵⁾

3. The figures in the survey are classified by functional programmes such as defence, education and housing, as well as by economic category, current and capital expenditure. Also, the analysis of public expenditure according to the spending authority, i.e. central government, local authorities and public corporations, is presented in the survey.

The functional classification was adopted in the survey because of its clear advantage in presenting all expenditure related to one specific function, say education, in one main programme regardless of the spending authority. Thus, all expenditure on education, for example, is organised under the Education Programme. Now, the survey covers 15 main programmes with several sub-programmes and programme elements.

4. The annual survey is fundamentally based on a regular and broad assessment of the economy over the short and medium term, so that the overall objectives and policies of the government could be identified. In addition, the prospects of national resources are considered in relation to expenditure...

Government's general priorities should be identified in order to maximise the benefit that the public gain from the use of national resources. Such priorities are usually mentioned broadly in the White Paper. For instance, the 1974 White Paper has stated social security, housing subsidies, and contribution to the investment of nationalised industries to increase efficiency and output, as the Government's top

(25) Goldman, (1970), op. cit.; p.258

priorities.⁽²⁶⁾ These priorities would not be adequately identified unless the general policy of the government is defined, its objectives and goals are determined and the prospective of the available resources are assessed, and that accurate and detailed information on costs and benefits of the various competing claims are available. The next step is to decide the appropriate growth rate of public expenditure as a whole and for individual programmes in the light of national priorities and resources available. "The size of expenditure and its rate of growth must be related to the total of resources available and the strength of competing claims."⁽²⁷⁾

5. The figures in the survey are at constant prices, that is the survey prices, to eliminate any effect that price changes might have. Nevertheless, there is what the White Paper calls a relative price effect "which arises because the prices of goods and services purchased by public sector outlays tend to move differentially from prices in the economy generally."⁽²⁸⁾

To overcome such effects an adjustment is made for all components of expenditures in the White Paper.

6. From 1972 and onwards, the annual White Paper includes as well, the actual expenditure for the five previous years in the survey prices for the purpose of comparison without the price effect.

Every year, figures of public expenditure in the past four years, the current year and the following five years are presented at the survey prices to provide the material for comparison between the past performance and future plans to see in real terms the trend and growth of public expenditure over a period of ten years. The following example makes this point more clear.

(26) White Paper on Public Expenditure to 1978-79, op. cit., p.2

(27) Ibid.

(28) White Paper on Public Expenditure 1969-70 to 1974-75, Cmd. 4578, London : HMSO, January 1971, p.70

The White Paper of December 1973 on public expenditure to 1977-78⁽²⁹⁾ contains the actual expenditure for years 1968-69, 1969-70, 1970-71, 1971-72 and 1972-73 at the Survey Prices (1973) and the estimated expenditure for years 1973-74, 1974-75, 1975-76, 1976-77 and 1977-68 also at 1973 prices. All the 15 main programmes were analysed and compared over the ten year period. In the next White Paper (1974) one future year (1978-79) was added and the first year of the previous survey (1968-69) was dropped, and all the figures were revalued to the current survey prices (1974) and usually there were some changes in the estimates of the previous White Paper. These changes might affect specific programmes, as a result of policy changes, or all programmes, as a result of "better information, more experience, and improved techniques".⁽³⁰⁾ It is also important to remember that policies on public expenditure are reviewed on a continuous basis to direct expenditure needs.

Furthermore, the White Paper of 1973 called attention to the uncertainty of world economic prospects and mainly the difficulty of assessing the future price and supply of oil. Such situations have led to the decision that the estimates for later years in the survey should be more flexible and more imprecise.⁽³¹⁾

The annual cycle of PESC starts at the beginning of the year in the spending departments. Every department is asked to estimate the costs of its main programmes and sub-programmes for the next five years, at constant prices and distinguishes between capital and current expenditure.

These estimates are prepared in the light of the Government's general policies and the department's own objectives and priorities. To

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- (29) White Paper on Public Expenditure to 1977-78, Cmnd. 5519, London : HMSO, December 1973
- (30) White Paper on Public Expenditure to 1967-77, Cmnd. 5178, London : HMSO, December 1972, p.12
- (31) White Paper on Public Expenditure to 1975-76, Cmnd. 4819, London : HMSO, November 1971, p.5

carry out this job efficiently, an adequate and up to date information system in the department is so essential in order to produce relevant cost data for each programme and its contribution to the department's objectives and other non financial information to be used in the forecasting process. Also, it is vitally important to have qualified staff to prepare the estimates and to support them by relevant statistical data to persuade the Treasury on the one hand, and to help the PES Committee by supplying the necessary information and analytical studies on the other.

Thus, the improvement of information systems of departments and the availability of qualified personnel are a major factor in producing an effective PESC system. Every department has a representative on the PES Committee to participate in the formulating of the Committee's report and to present his department's views to the Committee.

In the second stage of PESC procedures comes the role of the Treasury. There, all estimates from all areas of the public sector are examined, reviewed and analysed as a whole in the light of Government priorities and objectives, and the prospects of resources. Naturally, throughout this process, the Treasury maintains a continuous discussion with departments on their expenditure programmes.

There are several units in the Treasury, which carry out various activities to produce the necessary data and information to be used as a guideline. The General Expenditure Division and the Management Accounting Unit are examples, and their activities include, the ways of improving information systems in departments to help in making better decisions on programmes, and the using of some analytical techniques such as cost-benefit analysis and investment evaluation.⁽³²⁾

(32) Sir Samuel Goldman, The Developing System of Public Expenditure Management and Control, London : HMSO, 1973, p.38.

Goldman, however, has observed that the human resources which are devoted to these activities in the Treasury is not enough and that more qualified staff are needed.

In all the fields of endeavor remarkably small human resources have been used in this country. By comparison the Americans and to a lesser extent, the French have been lavish. I am convinced that we have been unwise to limit our own efforts in this way and that the return on additional investment here would be high ... (33)

All data and related information are put together before the PES Committee in the Treasury to be analysed to produce the PESC annual report.

The PESC Report is then considered by the Cabinet to make any changes in the light of the Government's economic and social policies and according to priorities among competing claims. After the examination of the report and the making, if any, of the necessary changes, the Cabinet gives its approval and it then becomes the official policy on public expenditure for the next five years.

The last stage of the PESC cycle takes place at the end of the year when the annual White Paper on public expenditure is drawn up from the PESC Report to be debated for two days in the House of Commons and published. The Select Committee on Expenditure examines and analyses the contents of the Paper in more depth and detail to make its regular comments and recommendations to the Government to be considered in the next survey.

Having discussed the main features of the PESC system and its procedures, there are four related points worth mentioning. The first one concerns the role of the British Parliament. The Parliament in Britain has an important role to play in assisting the Government to formulate the nation's policies through its various Select Committees.

(33) Ibid., p.39

The striking example is the role of the Select Committee on Estimates in 1958 in developing the annual survey of public expenditure. Indeed, it was the Committee which expressed the dissatisfaction with the existing system of public expenditure and recommended an independent Committee to investigate the matter.

Parliament, through its Select Committee on Expenditure, continued to play a major part in improving the PESC system. Every year, after the debate on the White Paper by the House, the Expenditure Committee examines the Paper in detail and makes its recommendations to be considered by the government in the next year's survey. For instance, the Expenditure Committee in 1971-72 realised that the annual survey lacks the necessary information on expenditure's output and recommended in its eighth report that:

... an information system based on outputs as well as inputs covering all items of public expenditure should be established; and that a start should be made this year by publishing in the public expenditure survey White Paper, in tabular form, any available information showing what expenditures are intended to purchase and the results they expected to achieve.⁽³⁴⁾

Thus, in response to this recommendation, the White Paper of 1973 includes more information on the outputs of individual programmes. This information on output, however, is still at an early stage, and is not always available for all programmes and all years covered by the survey. The 1973 White Paper stressed the Government's intention to improve non-financial information and to find better measures of output. The recommendations of the Select Committee in its Seventh Report provides another example. The major recommendation was to publish the essential elements of the Government's assessment of the economy over the medium-term. Thus, the White Paper of 1972 contains a detailed table which compares competing claims on resources from various sectors

(34) White Paper on Public Expenditure to 1977-78, op. cit., p.13

of the economy with each other and with the available supply in the medium-term. Such information, no doubt has made the paper more valuable.

Also the Treasury has published a memorandum on public expenditure practice in selected countries⁽³⁵⁾ in response to a recommendation made by the Expenditure Committee to the Treasury in its first report of 1975-76. The memorandum examines the practice of five selected Western countries in presenting public expenditure plans. The aim of the project was to gain benefit from the experience "of other countries which link the presentation of expenditure and taxation changes more closely than is done in the UK".⁽³⁶⁾

The continuous role of Parliament in improving the PESC system has been emphasised by Goldman:

... one can be reasonably confident that Parliament and the relevant Committees and sub-Committees will continue to act as an effective spur to the Executive to improve performance and develop still further the system of public expenditure management and control which has been evolved ...⁽³⁷⁾

The second point relates to the attitude of both major parties toward the PESC system. It is important to emphasise here the fact that every Government in power has shown its belief in the value of carrying out a regular survey of public expenditure since 1963 regardless of the type of government in office. What is changing, of course, are the general economic and social policies, on which the survey is based, which differ from one government to another. But, every government in power has emphasised the need for better decisions on the use of national resources through better systems of planning and control of public expenditure, that is to say, the ability to control the size and growth of public spending in order to secure the right balance of economic and social priorities.

It is interesting to mention that the Plowden Committee which proposed the new system, was in doubt if any government would be prepared to release

(35) HM Treasury, op. cit.

(36) Ibid., p.1

(37) Goldman (1973), op. cit., p.22

its long-term policies on national economy to the public or the Parliament. (38)

The third point is about the improvement of the PESC system since it was introduced. A simple comparison between the first White Paper on public expenditure (December 1963) and a later issue (January 1975) will clearly show the tremendous improvement of the annual survey over that period. More years are covered to provide the necessary material for comparison between actual performance and future plans, more non-financial information is presented, more statistical data is included, and the estimation of the increase in national resources which will be available within the next five years and the alternative uses of such increases are provided. And, naturally, the government's general objectives (economic as well as social), priorities among competing claims, and information on medium-term assessment of the economy are disclosed.

Before 1969 there was no regular annual White Paper on public expenditure, the first was published in 1969. Usually, every new White Paper contains a number of changes and a new type of information and analysis, either as a response to the recommendations made by the Expenditure Committee, or as a result of new government policies on public spending.

In short, the annual White Paper on public expenditure has improved over time in terms of presentation and analysis of various programmes. Nevertheless, much remains to be done on the problem of output measurement.

Finally, the fourth point is on the significance of a well developed system of information in government departments in order to improve the quality of decisions. Undoubtedly, an accurate and up to date information

(38) The Plowden Report, op. cit., p.8

system is a basic need of any modern government. The task of collecting, summarising, analysing and presenting data and information has been the central concern of many governments and greater efforts would be needed in this direction.

Like a private concern, a public organisation has three distinguishing processes, that is, planning, management, and control. Each function or process of these three entails detailed and accurate information. In the planning process, a decision maker needs the right information on the effectiveness of plans and decisions. In the management process, the managers want detailed information on the efficiency of the operating units. In the control process, the legislators require information to show if the money was spent as allocated.⁽³⁹⁾

According to Garrett, a public organisation needs information for three main purposes:

- (i) For submission to the legislature for appropriation and for statutory audit.
- (ii) For making policy and programme decisions for evaluating the impact of policies and programmes upon the community.
- (iii) For budgetary control, setting staffing levels, measuring management performance and identifying managerial accountability.⁽⁴⁰⁾

The report on output budgeting specifies the various types of information needed for developing a system of programme budgeting. It states that:

- For the purpose of output budgeting it is necessary:
- (i) To know the existing use of resources by programmes;
 - (ii) To know the future implications for the system, in terms of resources, of exogenous factors such as population changes;
 - (iii) To cost the policy options available;
 - (iv) To assess outputs resulting both from existing activities and from possible future activities.⁽⁴¹⁾

(39) Garrett, *op. cit.*, p.181

(40) *Ibid.*, p.172

(41) Department of Education and Science, *op. cit.*, p.29

Obviously, information requirements differ from one case to another. Thus, what is required, for instance, for taking a decision on developing a new weapon is different from what is required for a decision to be made on a road project. In some cases, the problem is too much data and information rather than a lack of information. The crucial point is what is relevant to the point at issue.

In short, information is an essential aid to the decisions-makers to formulate policies, to identify priorities and objectives, and to choose the most promising alternatives to attain those objectives. Therefore, much attention has been given to produce more and better information. One must not forget the crucial role of an effective accounting system in making a successful information system. As has been said earlier in this study, governments in both developed and under-developed countries have realised the role of accounting in this respect and a lot of effort has been made to improve the traditional system of government accounting and in particular the increasing use of cost accounting techniques.

Having examined these four related points to public expenditure decisions, we now turn to discuss the major accomplishments of PESC system in government decision making and its limitations.

Throughout its short existence, PESC has been a powerful instrument for managing and controlling the public expenditure.⁽⁴²⁾

Its main accomplishments can be summarised as follows:

1. Better Government control on the growth and trend of public expenditure and relating them to national resources and the nation's economic growth.
2. The Government has become able to identify its overall economic and social policies, the national objectives and priorities among all competing claims (central government.

(42) White Paper on the Re-organisation of Central Government, op. cit., p.14

local authorities, and nationalised industries) on a medium-term basis.

3. The improvement of departments' information systems and the development of new resource allocation techniques in order to prepare, as accurately and effectively as possible, the annual expenditure programmes for the next five years in accordance with the PESC requirements.
4. All expenditures related to one function, say education, are presented under one programme regardless of the spending authority. The advantages of such classification have been discussed earlier in this study.
5. Much attention is given to the relation between input and output and attempts are being made to develop more measures of output and to provide more non-financial information.

Naturally, there are a number of difficulties in carrying out the annual survey. Perhaps the most obvious is the problem of uncertainty about future economic and social developments concerning programmes which are beyond the control of human judgement. For this reason, the latter years of the survey are more flexible and ready to be adjusted to meet changes in circumstances. Another difficulty is attributed to the use of a constant price base for all figures in the survey. As Goldman has observed:

The main difficulty with constant prices under which all programmes have to be revalued on a new base every year is that linkage between the newly calculated and old programmes becomes extremely difficult; a recalculation of the historical past and of earlier estimates is required in order to obtain any continuous record and this presents problems of exceptional technical difficulty which increases the longer the period covered.⁽⁴³⁾

(43) Goldman (1973), op. cit.; p.40

But, as it was indicated earlier, the advantages of using the constant price base justify the efforts required to overcome such a difficulty.

Finally, there is the problem of relating functions to objectives not to services. Such a problem, of course, is an international one and is attributed to a major factor, the difficulty of evaluating social services in terms of money. Attempts, however, are being made to provide more non-financial information and to find more measures of outputs. In Britain the development of the PAR programmes (discussed in the next section) aims to support the PESC survey by providing more in-depth analysis for particular programmes.

4.4 CENTRAL POLICY REVIEW STAFF (CPRS) AND PROGRAMME ANALYSIS AND REVIEW (PAR)

The White Paper on "The Reorganisation of Central Government" of October 1970 called attention to the need for an analytical basis to strengthen the PESC system. The Government at that time felt that the existing system of PESC was a "powerful instrument of demand management and financial control."⁽⁴⁴⁾ However, in the Government's view, the PESC system does need an analytical support to provide all the information needed by policy makers. Two major types of information, which are extremely essential for a decision maker, are not provided by the existing system. These include information on expenditure's objectives to assist policy makers in evaluating the department's plans against government strategy, and information on programmes' analysis to ensure the effectiveness of such programmes in achieving those objectives. It was believed that with this valuable information, the PESC system would be more effective.⁽⁴⁵⁾

⁽⁴⁴⁾ White Paper on the Re-organisation of Central Government, op. cit., p.14

⁽⁴⁵⁾ Ibid.

To achieve this aim, the Government proposed to establish a small Central Policy Review Staff (CPRS), widely known as the "Think Tank", in the cabinet office. The CPRS task was identified by the White Paper as:

.... to enable them (Ministers) to take better policy decisions by assisting them to work out the implications of their basic strategy in terms of policies in specific areas, to establish the relative priorities to be given to the different sectors of their programmes as a whole, to identify those areas of policy in which new choices can be exercised and to ensure that the underlying implications of alternative courses of action are fully analysed and considered. (46)

Thus a team of businessmen were invited to carry out this task in 1970 under the chairmanship of Lord Rothschild. Perhaps, it is worth mentioning that such action from the Conservative Government was largely attributed to the fact that "the Conservative party had shown considerable interest in new methods of planning and controlling public expenditure while they were in opposition." (47)

The aim of the government in inviting a team of businessmen to carry out the CPRS' tasks was to benefit from the experience of private business in the area of management and decision-making. This obviously reflects the intention of modern governments of introducing a new style of government, that is to say the application of new business type techniques and procedures in planning, management and control of public activities.

The aim of the CPRS was summarised by Plowden as "to make Ministers aware, in advance, of the probable and possible consequences of their actions or inaction, and as far as possible to see them as related elements in a corporate strategy". (48)

Thus, the CPRS activities are intended to overcome the problem of, among others, fragmentation of government departments. Such a problem

(46) Ibid., pp.13-14

(47) Bridgeman, *op. cit.*, p.95

(48) William Plowden, "The Role and Limits of a Central Planning Staff in Government: A Note on the Central Policy Review Staff", Public Administration Bulletin, June 1974, p.24

was the result of the fact that "decisions tend to be taken in isolation from each other and sometimes without full understanding of their likely consequences". (49)

It is important to mention here that "the CPRS does not make policies, it simply provides inputs to help in orderly policy-making". (50)

A major contribution of the CPRS has been identified by Plowden. "CPRS ... often benefits from the CPRS' extensive and regular contacts with outside experts. Their advice is valuable not only because their expertise usefully supplements the limited resources of the CPRS, but also because it is given from an independent viewpoint entirely outside the government machine". (51)

One of the major works of the CPRS was the development of Programme Analysis and Review (PAR). It consists of a regular in-depth analysis of selected programmes carried out by various government departments. It aims to provide more and better information on programmes under review. It is not a replacement to the PESC system, rather, it is "a natural extension of the public expenditure survey system and would support present departmental submission in the public expenditure survey cycle". (52)

Although policy reviews are carried out under the PESC system, "the new aspect of programme analysis and review, as the government is applying it, is that these features will be applied systematically and regularly to a wide choice of programmes from across the whole field of government". (53) Thus, with the PAR system there would be "a greater emphasis on the definition of objectives and the expressing of programmes so far as possible in output terms; and the presentation and examination of alternative programmes will be of great importance". (54) Such importance

(49) Ibid., p.23

(50) Ibid., p.26

(51) Ibid., p.24

(52) White Paper on the Re-organisation of Central Government, op. cit., p.14

(53) Bridgeman, op. cit., p.95

(54) White Paper on the Re-organisation of Central Government, op. cit., p.14

will grow as PAR is increasingly integrated into the main PESC system.⁽⁵⁵⁾

The Treasury, CPRS and spending departments are involved in all aspects of PAR. The Treasury and CPRS hold regular discussions with departments to choose PAR topics. One of the main tasks is to relate individual departments' policies to the overall strategy of the government. All analysis and studies of a particular PAR topic are carried out by the department concerned and the Treasury and the CPRS participate in these activities regularly through a committee on PAR (PARC) which was established in the Treasury. The PAR Committee, unlike the PES Committee, is not responsible for the preparation of PAR reports which are the responsibility of the particular departments. The PAR Committee's main task is to act as a co-ordinating body between the Treasury and the spending departments.

A PAR topic usually goes through the following main steps⁽⁵⁶⁾:

1. Identification of what is called "the main determinants of expenditures" such as population trend and growth, the number of graduates in a specific field and so forth. This information is to be used in all the next steps.
2. Definition of the objectives that a particular programme is intending to achieve.
3. Classification of all possible activities in such a way that all activities which contribute to the accomplishment of a specific objective are grouped together.
4. Determination of all resources, public or private, devoted to each set of objectives (programme) to estimate its total costs.
5. Systematic analysis of each programme in terms of costs,

(55) Goldman (1973), op. cit., p.50

(56) Hirsch, op. cit., p.124

effectiveness and implications. All promising alternatives are examined and considered to provide Ministers with all possibilities to take the appropriate decision.

It should be borne in mind that there is one basic conceptual difference between PPBS and PAR. As has been shown earlier in this study, PPBS is an integrated system, it systematically incorporates the two main processes of planning and budgeting in one integrated budgetary system. PAR, on the other hand, is not considered as an integrated system of budgeting. It is only a part of the main public expenditure control system. It is an analytical approach toward analysing specific departmental programmes in greater detail by using some advanced techniques such as cost-benefit analysis to provide the concerned Minister with better and detailed information to make the necessary decisions. It is important to emphasise once again that such studies are carried out only on specific and selective programmes in the governmental departments.

It is safe to assume that the reason for the British Central Government to adopt a rather limited and modest approach toward the improvement of the government budget was mainly to avoid the faults and the disappointing results of the American experience with PPBS in the Federal Government.

To conclude this section, a word is in order about a major limitation to be found in the process of the PAR system. This limitation concerns the secrecy of its reports. These reports are confidential and available only to a limited number of staff inside the government.⁽⁵⁷⁾ Consequently, the effectiveness of the PAR system and its contribution toward the improvement of allocation decisions cannot be adequately assessed. However, there is no doubt that the PAR system provides more and better information on the selected programmes to be used by the decision-maker.

(57) Christopher Pollitt, "The Public Expenditure Survey 1961-72", Public Administration, Vol.55 (Summer 1977), p.139

"And, since the quality of information is one variable determining the quality of management it should, other variables remaining constant, result in a better use of resources".⁽⁵⁸⁾

But experiences have proved that such publications would do good rather than harm to the system. It would enable the outsiders, e.g. writers and researchers, to assess, evaluate and propose any improvements to the system to make it a more effective instrument.

4.5 PROGRAMME BUDGETING (PB) IN GOVERNMENT DEPARTMENTS

The government policy in Britain has always been to encourage all departments to find and adopt improved methods to make better allocation decisions among the departments' services in the light of their abilities and circumstances. Only three departments, however, have introduced some aspects of PB to their services. They are the Ministry of Defence, the Department of Education and the Home Office. The experience of the Home Office has not been reviewed due to the lack of available information.

4.5.1 THE MINISTRY OF DEFENCE

The Ministry of Defence was the first government organisation to develop a system of programme budgeting in 1965. The new system, known as Functional Costing, was introduced as part of organisational arrangements started in 1964 to improve the quality of expenditure decisions on a long term basis.⁽⁵⁹⁾

The shortcomings of traditional budgets (input budget) were realised by the Ministry of Defence a long time ago. These types of budgets do not give consideration to costs, performance and output.⁽⁶⁰⁾

(58) Keeling, op. cit., p.176.

(59) K. Hartley, "Programme Budgeting and the Economics of Defence", Public Administration, vol.52 (Spring 1974), p.55

(60) Ibid., p.56

Also, the use of a one year period only has resulted in a limited value of the budget because the total costs of present decisions are not considered. In Defence, most projects take ten years or more to be completed, and in a traditional budget context, the likely implications of these projects cannot be assessed. To be successful, a project requires analysis and consideration of total costs involved through its development. This will make the picture more clear to the decision-maker.

All these major deficiencies in a traditional budget have created an increasing demand to look for a better system of budget in the Ministry of Defence.

Although the proposed budget for defence was not perfect it had some good features to make it a much better source of information to the decision-maker rather than the traditional budget.

The new budgetary system has five basic features: First, all defence objectives and goals in the short, medium and long term are clearly defined. Second, all expenditures are classified by programmes and sub-programmes. A programme structure would mean all activities are grouped in major programmes. Each major programme consists of groups of activities that contribute to a particular main objective or set of objectives. Third, total costs of each programme are determined. Fourth, considering as many as possible alternative ways of achieving each programme and selecting the most effective with the least costs. Finally, the planning period has been extended to ten years to consider all future implications in the next ten years for each programme.⁽⁶¹⁾

At present, there are 14 major defence programmes with some 700 programme elements.⁽⁶²⁾ Examples of major programmes are: Nuclear Strategic

(61) Ibid., p.59

(62) Garrett, op. cit., p.141

Forces, European Ground Forces and Air Mobility.⁽⁶³⁾

The functional-costing system is supported by analytical techniques, such as cost-effectiveness analysis, to provide more and accurate information on costs of various types of weapons and their effectiveness in achieving given objectives. However, Hartly has observed that "No attempt is made to place a monetary value on the measure of defence effectiveness, the aim being to select the least-cost method of destroying a target or protecting a city or military installation".⁽⁶⁴⁾

According to Hartley⁽⁶⁵⁾ and Bridgeman⁽⁶⁶⁾, the experience of the Ministry of Defence with the new system is, in general, considered to be successful. Basically, its value is found in its contribution to the improvement of the quality of defence decisions which would result in better use of resources. Naturally, the system has its limitations and difficulties. The obvious ones are the difficulty to relate some programmes to objectives and the measurement of output.⁽⁶⁷⁾

4.5.2 THE DEPARTMENT OF EDUCATION AND SCIENCE

Apart from the experience of the USA with PPBS, there are three main reasons behind the growing interest of UK civil departments to use PB as a tool to improve resource allocation. First, the introduction of the PESC system has encouraged individual departments to look for better planning techniques in order to prepare the departments' estimates in a programme basis for five years according to regulations and procedures required by the PESC system. As a result, departments have been trying to develop and apply new methods and techniques to produce more and better information to

(63) Bridgeman, op. cit., p.92

(64) Hartley, op. cit., p.55

(65) Ibid., p.68

(66) Bridgeman, op. cit., p.92

(67) Hartley, op. cit., p.68

be used in the process of preparing the annual estimates. Second, the success of a PB system in the Ministry of Defence has attracted the attention of the other departments to consider the introduction of similar systems. Third, the substantial increase in expenditure in almost all departments has led to the search for better ways and techniques to improve the use of resources.

The officials of the Treasury have preferred a step by step procedure and decided to advise departments to carry out a feasibility study on the PB system.

Thus the Treasury has carried out two feasibility studies, one for the Department of Education and Science, and the other for the Home Office. They were the first of their kind to test the potential applications of PB in civil departments. The study for the Department of Education and Science was published in 1970 as an Educational Planning Paper.⁽⁶⁸⁾ It includes the proposed output budgeting for the department.

The proposed system, which covers all expenditure on education by central government and local authorities, classified the activities of the Department into three major blocks, education, research and cultural and recreational activities. Each block is divided into major and sub-programmes. Such classification was based on the three main objectives which the Department seeks to accomplish. These objectives are:

- A. to meet the needs of the community for education including both the individual's need and desire for it and the requirements of the community for educated manpower;
- B. to increase human knowledge, either so that it may be applied sooner or later, or to improve the intellectual and cultural environment, or both;
- C. to enrich the quality of people's cultural and recreational activities and to increase opportunities for such activities.⁽⁶⁹⁾

The first objective is achieved through education programmes, the second

(68) Department of Education and Science, op. cit.

(69) Ibid., p.8

through research programmes and the third through cultural and recreational activities.

The education block, for example, is divided into seven programmes. This classification is not based on objectives; rather, an age-group basis is adopted. Accordingly, the following programmes are identified as major programmes in the education block⁽⁷⁰⁾:

1. Compulsory Education
2. Nursery Education
3. Education of the 15 year old
4. Education of the 16-19 year old
5. Higher Education (below first degree level)
6. Higher Education (first degree level)
7. Postgraduate Education.

The three important components of output budgeting were described by the study as:

- a. the allocation of expenditure to programmes which are as closely identified as is practicable with objectives ...
- b. the systematic review of programmes on a regular basis. This includes the questioning of the continued validity of the objectives as well as consideration of alternative ways of achieving them and of the progress so far made;
- c. special studies, either to establish the value for money of alternative ways of achieving the given objectives, or to evaluate the progress made towards achieving particular objectives if this information is not available on a regular basis.⁽⁷¹⁾

The following diagram summarises the steps in setting up a programme budgeting (element (a) above).⁽⁷²⁾

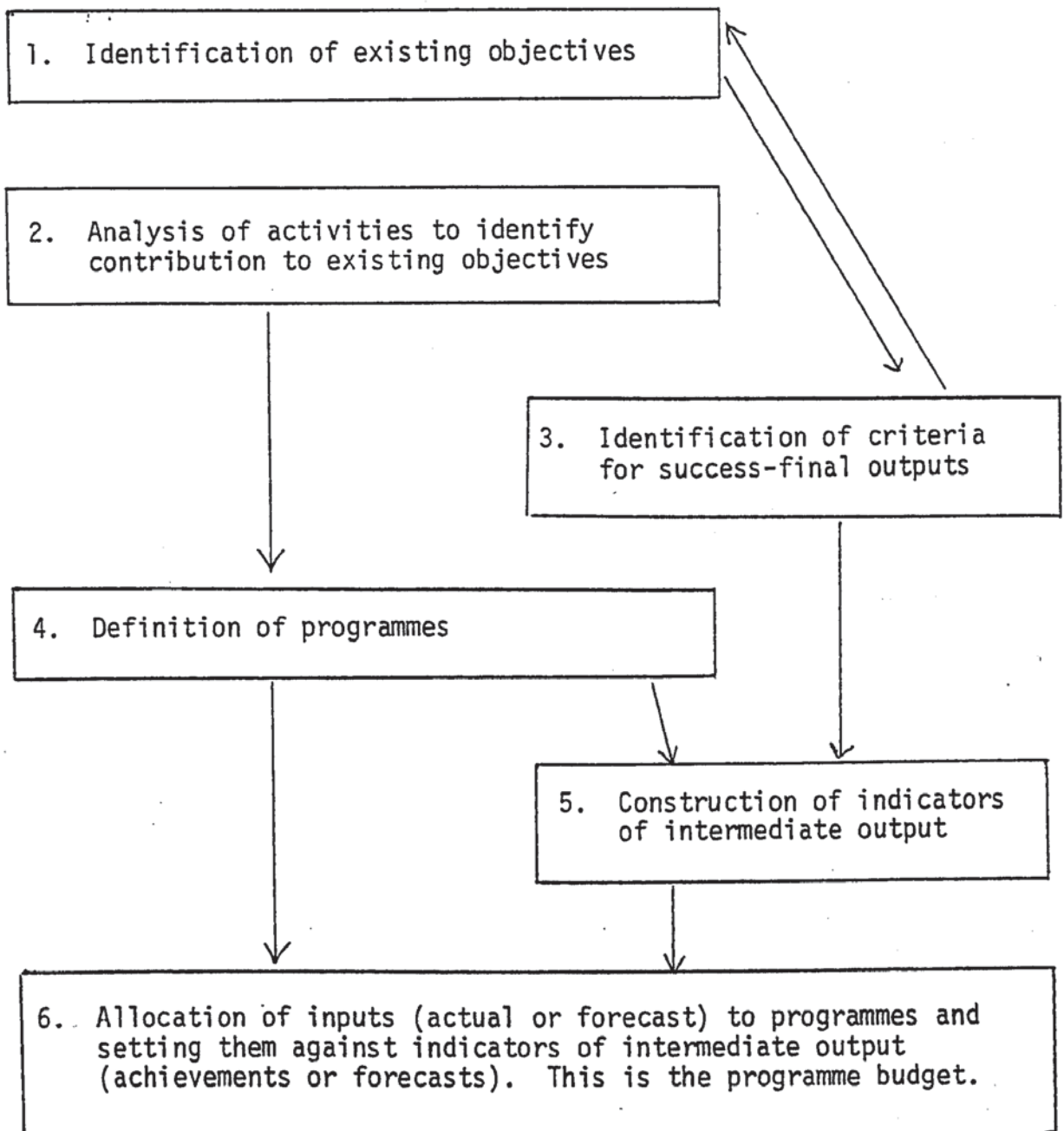
(70) Ibid., p.97

(71) Ibid., p.4

(72) Ibid., p.95

Figure 4.1

The steps in setting up a programme budgeting
at the Department of Education



In education, the study has gone through steps 1 to 5 and part of step 6, while in both research and cultural and recreational activities steps 1 to 4 have been covered and part of step 5. (73)

The main objective of introducing PB in the Department of Education was to improve the planning function to make better use of resources. As Brierly has pointed out, "The programme-budgeting system for education has been designed as an instrument for planning, not for management, and the department's use of it would have to take account of the balance of responsibilities among its partners in the education service." (74) The development of procedures and methods to carry out the plans set up by the Department is the responsibility of local education authorities and other bodies. (75)

The study has emphasised the fact that "output budgeting does not attempt to replace judgement; but it can affect the general approach to decision-making and it can provide a better factual basis for judgement". (76)

After this brief examination of PB in the Department of Education, we turn now to discuss the benefits of education and the difficulty of measuring them.

In general, benefits from education can be classified into quantifiable and unquantifiable. The former is the total income which a person will earn after his graduation throughout his life. This kind of benefit is not difficult to calculate. The latter includes the indirect benefit either to the person himself, e.g. the increasing knowledge of the person which would certainly be reflected in a better thinking, attitudes and way of life to himself and his children; or to the community as a whole, e.g. less crime as a result of more educated people. In addition, in

(73) Ibid., p.96

(74) J.D. Brierley, "Programme Budgeting in Education in the United Kingdom", in Norvick (1973), op. cit., p.98

(75) Ibid.,

(76) Department of Education, op. cit., p.96

developing countries, education programmes will result in more national graduates who will replace foreign employees and experts to carry out public and private activities. This national goal is usually one of the first priorities of every developing nation and the value of its achievement in money terms is very difficult to measure.

In the USA attempts have been made to measure the benefits of education in money terms. Such attempts, however, did not consider all benefit of education, that is quantifiable as well as unquantifiable. The reason, of course, is the difficulty in measuring the latter type of benefits.

This problem of output measurement has been recognised by the feasibility study and has been mentioned several times in the report of the Department of Education:

- p.4 "... in many, if not all, areas of activity the measurement of final output presents formidable conceptual and practical difficulties ...
- p.19 A major difficulty in measuring output and relating it to expenditure in the Department's field is that ultimate benefits usually accrue after a long time lag ...
- p.96 "... in most fields of Government activity, the assessment of final output poses severe problems, progress in solving which will be slow and difficult...."

As a result of this difficulty, the measurement of output is restricted to intermediate output instead of final output, pupil/teacher ratios instead of educational standard, for example.⁽⁷⁷⁾

In spite of this deficiency in the new system, the study argues that programme budgeting in the Department is a valuable tool to the planners because:

... by directing attention to final objectives, even where success in achieving them cannot be measured, it can suggest improved methods of assessing the success of a programme of expenditure; that it provides a framework for assessing

(77) Ibid., p.19

systematically how resources are being used; and that it crosses institutional boundaries, so illuminating policy choices which might otherwise have been obscured.⁽⁷⁸⁾

At present, a programme budgeting system is in operation in the Department of Education in accordance with the proposal made by the feasibility study. The success has been limited to the measurement of the cost of accomplishing intermediate output. The next step, of course, is to try to find a new and better measure of final output.

4.6 SUMMARY, EVALUATION AND CONCLUSION

Because of its limited resources and an increasing public demand for its services, every government in the world is confronted with the problem of allocating such limited resources among competing claims in a way that maximum benefits would be achieved. Traditional government decision-making systems proved to be inadequate to cope with the increasing activities and responsibilities of modern governments.

This growing dissatisfaction with traditional system has led to an increasing effort from many governments, all over the world, to find new methods and techniques to improve the quality of decisions. As a result, a number of new concepts have been introduced in various countries. Perhaps the most well known system in this respect is the American PPBS.

In Britain, the last two or three decades have witnessed a tremendous change and development in the field of governmental decision-making. There was a widespread dissatisfaction with the way that public expenditure was planned, managed and controlled. In response to such dissatisfaction the PESC system was developed in 1961 to improve expenditure decisions. According to this system, public expenditure was considered as a whole for a period of five years, and expenditure was grouped according to a functional classification. Such a system aims

(78) Ibid., p.96

mainly to improve the allocation of resources. It is a way to avoid the traditional practice in many countries of allocating available resources, that is to say, the projection of the next years' expenditure on the basis of the previous year's expenditure by increasing or decreasing the previous year's amount by an equal percentage to all departments. This deficiency has been recognised by the Plowden Report. It stated that "such an attempt will either fail, in that the most urgent programmes will avoid the cut, or if it is successful will almost certainly result in misdirection of resources."⁽⁷⁹⁾

By 1970, after about a ten year experience with the PESC system, it was realised that the system needed to be strengthened by carrying out a regular in-depth analysis of expenditure programmes to provide more and better information to help Ministers in making the appropriate decisions. Consequently, the PAR programme was developed in 1971.

Although the PESC and PAR systems are considered as a powerful instrument for planning and controlling the public spending by providing more and better information to the decision-makers, there are some criticisms on the way that the Treasury plans and controls public expenditure. The latest criticism comes from the Expenditure Committee in its report on the Financing of Public Expenditure published in December 1975.⁽⁸⁰⁾ In particular, the Committee expressed its concern on the Treasury's failure to control public expenditure in relation to "relative price effect" (discussed in section 4.3). It also has stated that in 1974-75 actual expenditures were greater than estimated by £5,800m which clearly reflects the plan's inaccuracy. The Committee went further in its report to express its desire to see what it called a "PESC plus system" for positive planning. The Committee concluded that "The Treasury's

(79) The Plowden Report, *op. cit.*, pp.30-31

(80) The Times, Tuesday 17 February 1976

present methods of controlling public expenditure are inadequate in the sense that money can be spent on a scale which was not contemplated when the relevant policies were decided upon."⁽⁸¹⁾

Also, the Public Accounts Committee in its report of 1975 has criticised the way that government departments managed and controlled their expenditure which resulted in £1000m being spent needlessly. In the words of the Committee's chairman, "Government spending was hopelessly out of control."⁽⁸²⁾

Another criticism to the way the government plans and controls its expenditure came from a television programme reporting on the computerised licensing centre in Swansea.⁽⁸³⁾ The project's work started in 1965 with an estimated cost of £95m over ten years with 4000 staff. By 1976, the actual costs reached £400m - four times the original estimate - and 8000 staff will be needed. The Public Accounts Committee in 1975 criticised the decision to carry out the project and according to the Committee's Chairman:

Swansea was a scandalous affair. There was a lack of proper planning. No feasibility study. The estimates of the amount of money that was to be required were wildly out. The estimate about people were wildly out, and there was no proper control of the project once it got under way.⁽⁸⁴⁾

After more than ten years since the original decision to computerise, it has been realised that the cost factor was not considered in making the decision. As the top civil servant in the Transport Ministry at that time explained:

We didn't do any pre-planning on an enormous scale, because the decision to centralise would have been the same; it would have been silly to spend money to find out how much it would cost if you are going to do it anyway; you would have spent an awful lot of money for nothing. The question

(81) Select Committee on Expenditure, quoted by Maurice Wright, "Public Expenditure in Britain: the Crisis of Control", Public Administration, Vo.55 (Summer 1977), p.143

(82) The Times, October 22, 1976

(83) "Licence to Spend", The Listener, 26 February 1976, p.229 (84) Ibid.

of cost was not relevant. Even if we had known the actual cost, we would have gone ahead with it.⁽⁸⁵⁾

One wonders, what would be the situation if all policy makers in government departments adopted such a view.

Finally, a recent article by Wright on public expenditure in Britain has the following to say regarding the PESC system:

In the space of three years the system for planning and controlling public expenditure in Britain has moved into deep crisis. Whereas it was possible to claim in 1973 that PESC was the most sophisticated budgetary system in the world, today it is difficult to resist the contention of a former senior economic advisor to the Treasury that public expenditure is neither planned nor controlled.⁽⁸⁶⁾

Wright has identified three major weaknesses in PESC as a financial controlling system. The first was the high rates of inflation in Britain. Thus, "In the 1970's under-estimates of costs and the movement of prices and wages has meant that a given volume of services has had to be financed at a greater monetary cost than was anticipated."⁽⁸⁷⁾ Therefore, there was a lack of control over the monetary costs.

A second major weakness of PESC was "its lack of comprehensive monitoring and information system"⁽⁸⁸⁾, despite the attempts by the Treasury to make some progress in this respect by introducing PAR programme and "empirical research" into particular programmes in central departments.⁽⁸⁹⁾

The third weakness was the difficulty of controlling local government spending, which accounts for a third of total public expenditure, mainly because "that proportion has been growing faster than that of any other spending authority in recent years".⁽⁹⁰⁾

Realising such weaknesses in the financial controlling system, the Treasury has acted in three directions to overcome these major weaknesses.

(85) Ibid.

(86) Wright, op. cit., p.143

(87) Ibid., p.156

(88) Ibid.

(89) Ibid. (90) Ibid., p.157

First, a cash limit on most expenditure programmes was introduced in April 1976. It aimed to control the monetary costs which resulted in discrepancies between actual and planned expenditure in the 1960's and 1970's. This policy of a cash limit means that "where there is an increase of prices or labour costs above that forecasted and allowed for in the cash limit, the Treasury will not automatically meet the bill by presenting a Supplementary Estimate to Parliament".⁽⁹¹⁾

Secondly, the Treasury has been trying to improve the quality of information by constructing a comprehensive financial information system to provide the necessary financial information from the department before frequently than before (on monthly basis instead of every quarter) to take the corrective actions at the right time.

Finally, the Treasury has been aware of the importance of controlling local government spending, which represents a considerable proportion of total public expenditure, in order to make the PESC system a more effective planning device. As a result, central government's contribution to local government revenue has been reduced in 1975 and 1976.⁽⁹²⁾

Before concluding this chapter, a word is in order about the British Civil Service.

Although the British Civil Service is highly developed, some problems and deficiencies, which impede the progress and improvement of PESC and PAR systems, can be found. One of these problems is the hostile attitude of permanent civil servants toward outside advisors, particularly academicians.⁽⁹³⁾ Such an attitude has resulted in only a small contribution from academic institutions toward the improvement of the PESC system. Goldman has noticed this fact, but he did not consider the attitude of civil

(91) Ibid., p.158

(92) see next chapter

(93) Hirsch, op. cit., p.121

servants as a reason for this.⁽⁹⁴⁾

Another aspect of inadequacy of the civil service is the problem of confidentiality of information. According to Hirsch:

X ... all documents are classified and not available to any one except a small number of insiders. For example, all PAR reports are classified, and during the January 1972 Hearings, of the Select Committee on Expenditure of the House of Commins, repeated requests by members of Parliament to be informed about what programs are subjected to analysis and for copies of PAR reports were denied.⁽⁹⁵⁾

The problem of secrecy had also been observed by the Fulton Report on the Civil Service in 1968. It suggested the setting up of a government inquiry to recommend on how to get rid of unnecessary secrecy.⁽⁹⁶⁾

But recently, the British Government has realised the importance and the need for publishing more governmental information. According to a recent article in the Sunday Times⁽⁹⁷⁾, the government is planning to disclose more official information about policy making in government departments. This move "has been principally motivated by the need felt by Whitehall to fend off American-style freedom of information laws".⁽⁹⁸⁾

Thus, the government departments, as reported by the article, were instructed by the Prime Minister in June 1977 to publish more information about policy making. The head of the Civil Service explained the new policy:

In the past, it has normally been assumed that background material relating to policy studies and reports would not be published unless the responsible Minister decided otherwise. Henceforth the working assumption should be that such material will be published unless they decide it should not be.⁽⁹⁹⁾

(94) Goldman (1973), op. cit., p.41

(95) Hirsch, op. cit., p.121

(96) Garrett, op. cit., p.47

(97) The Sunday Times, September 25, 1977

(98) Ibid.

(99) Ibid.

One would hope that this changing attitude of the government will result in more official information published about the PAR reports which have so far been considered as confidential materials available only to a small number inside the department.

In spite of these deficiencies and criticisms, the PESC and PAR systems have been a major help to the policy makers by providing more and better information on expenditure programmes. Such developments have been the outcome of continuous efforts by the British Government to improve the quality of decisions to make better use of national resources.

As Hirsch concludes, the British experience in this respect offers a lot of lessons to be learned.

As federal, state and local governments in the United States keep searching for improvements in their operation, they are well advised to give thought and consideration to a promising marriage between incentive structure and change proposals. And there is much to be learned about this from the recent experience of the United Kingdom. (100)

To those who criticise the accuracy of public expenditure planning, Sir William Pile says, "Clearly we can guess wrong and it would be stupid to pretend that we shall be right all the time. But I believe that the chances that we shall be disastrously wrong will be less if we plan than if we do not." (101)

(100) Hirsch, *op. cit.*, p.127

(101) Sir William Pile, "Corporate Planning for Education in the Department of Education and Science", Public Administration, vol. 52 (Spring 1974); p.20

CHAPTER V

BUDGETARY DEVELOPMENTS IN BRITISH LOCAL GOVERNMENT

5.1 INTRODUCTION

The growing complexity of modern life and the public's need for more efficient and effective services in such life have made the task of decision makers in local government increasingly difficult.

In response to these difficulties, the last decade has witnessed a growing interest in improving the traditional methods of planning, management and control of the affairs of local authorities. As a result, the new systems and techniques have been introduced in many local authorities in Great Britain to seek more effective planning and more efficient management and control in order to obtain the maximum value from scarce resources.

The purpose of this chapter is to review briefly the role of local government and its structure and to focus on attempts which are being made to develop new budgetary procedures in local government. Thus, this chapter is divided into six sections:

1. the importance of local government;
2. reorganisation of local government;
3. local government finance;
4. organisational structure and decision making process in the local authority;
5. programme budgeting and corporate planning as developed in British local authorities;
6. Conclusion.

5.2 THE IMPORTANCE OF LOCAL GOVERNMENT

Local government in Britain has a great role to play in the people's

life. Its role is not only restricted to the traditional function of providing services for local people, it also has the potential role in contributing to the well-being of the local community. The Bains Report has recognised this important role:

Local government is not, in our view, limited to the narrower provision of a series of services to the local community, though we do not intend in any way to suggest that these services are not important. It has within its purview the overall economic, cultural and physical well-being of that community, and for this reason its decisions impinge with increasing frequency upon the individual lives of its citizens.⁽¹⁾

Furthermore, the Royal Commission on Local Government in England in its Report of 1969⁽²⁾ has emphasised the role of local government as an essential part of English democratic government. In the committee's view the adoption of the proposed reorganisation will make local government a more powerful part of the government.

Because of this important role, local authorities are under increasing pressures to improve their effectiveness and efficiency in carrying out their activities.

The local authority aims to solve people's problems and to fulfil their needs as effectively and efficiently as possible. Providing services for the local community is one fundamental function to achieve this aim. The first type, environmental services, are provided for people as a group. They include public lighting, street clearing, and refuse collection. The second type is called personal services which provide for the benefit of individual persons. The most obvious examples of these services are education and housing. The third type is known as trading services which

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- (1) G.B., Study Group on Local Authority Management Structures, The New Local Authority - Management and Structure (Bains Report), London : HMSO, 1972, p.6
- (2) G.B., Royal Commission on Local Government in England, 1966-69, (Redcliff-Maud Report), Vol. 1, Cmnd. 4040, London : HMSO, 1969, p.146

are commercial in character. Municipal transport undertakings is one example. The fourth type is called non-trading services which includes the services of weights and measures, and building regulations.

It is essential for the local authorities to assess each activity in terms of its contribution toward meeting the needs of the local community. This process would be used to set priorities and allocate resources accordingly. Also, the attitude of people who receive the service must be examined and assessed to see whether such a service is appropriate, and effectively and efficiently provided.

As a service institution, local authority needs to manage its affairs in a more systematic way by focusing on the importance of cost control on one hand, and the emphasis on the right results, on the other. And this is exactly what the new developments in the management of local government is trying to achieve.⁽³⁾

5.3 REORGANISATION OF LOCAL GOVERNMENT

Before 1974, the existing structure of local government was initially established by Local Government Acts of 1888 and 1889. Things have changed dramatically since that time and life has become more complicated. Environmental, economic, political, and social factors are always changing. As a result, the need for reform in local government was realised and started in the London area in 1963. In 1966 two Royal Commissions were appointed to examine, review, and report on the organisation of local government in England and Scotland. Two Reports by these Commissions were published in 1969. They include the recommendations which call for the urgent need for reorganisation of local government in order to make it more effective and efficient.

(3) See section 5.6

These two Royal Commissions were the response of the government to the shortcomings and weaknesses in local government organisation. The aim was to pinpoint these weaknesses and to propose the necessary changes required to overcome them.

The Report on English local government has pointed out that local government did not realise fully its purpose. "Partly because this is due to the fact that local government is severely handicapped by the structure ... But partly also it is due to the fact that there are strongly centralising influences at work".⁽⁴⁾ The report also attributed some of the weaknesses to the fact that there was too much control from central government over local authorities. In the Commission's view "local authorities must - and can - be given a real measure of freedom in reaching their own decisions in setting, within broad national policies, their own priorities".⁽⁵⁾

This proposed freedom, together with a big reduction in the number of authorities, to have fewer but stronger authorities, and the establishment of a central committee for coordination, were three of the basic recommendations of the Commission.

The publication of the report was followed by a White Paper in 1970, by the then Labour Government, outlining the proposed reform of local government on the basis of the recommendation of the Royal Commission. In 1971, however, the Conservative Government published another White Paper on reorganisation with some differences from those which the Royal Commission had proposed. The final reorganisation of local government on the basis of the 1971 White Paper took place in May 1974 in England and Wales, and in May 1975 in Scotland. The aim of this reform

(4) Redcliff-Maud Report, op. cit., p.11

(5) Ibid., p.30

was to seek a modern system of local government in order to cope with the modern way of life; that is, to provide more efficient and economic units of government which would be more capable of fulfilling the needs of the public. One of the basic changes was the reduction of the number of local authorities in England and Wales from 1300 to only 422 with the establishment of six new metropolitan counties with high population densities. In Scotland, the number was reduced from 431 to only 65 authorities. This enormous reduction in the number reflects the fact that local authorities before reorganisation were too small in size and this might be considered one of the main reasons for their inefficient operation.

A major feature of British local government structure is the existence of the two-tier system of authorities. However, it is essential to emphasise the fact that although there are some kind of relationships between a district and its county, both are independent of each other in most respects.

5.4 LOCAL GOVERNMENT FINANCE

Cripps and Godley suggest that local government finance system in Great Britain has two basic characteristics which distinguish the local authority from a central government department.

The first characteristic is that the central government subvention is a block of grant which is totally unhypothecated, so local authorities cannot, in the very nature of things, be called to account by central government for the way the grant is appropriated, unlike a department whose expenditure is voted under subheads by Parliament.

The second point is that local government, unlike a government department, raises its own taxes. This means that it has some control over the allocation of expenditure between services.⁽⁶⁾

(6) F. Cripps and W. Godley, Local Government Finance and its Reform : A Critique of the Layfield Committee's Report, Department of Applied Economics, University of Cambridge, October 1976, p.7

The existence of the two-tier system of authorities created some financial problems. According to the financial arrangements between the various authorities, the metropolitan counties spend 20 per cent of total expenditure allocated to their areas and the metropolitan districts spend 80 per cent. On the other hand, non-metropolitan counties spend 85 per cent of total expenditure allocated to their areas, and the non-metropolitan districts spend only 15 per cent.⁽⁷⁾

"This variety of arrangements", Layfield argues, "presents in itself formidable problems in constructing a rational and harmonious set of financial arrangements for local government finance."⁽⁸⁾

As regards the weaknesses of the present financial control system in local government, the Layfield Report has rightly illustrated the fundamental one:

In practice ... the actual expenditure of local authorities in each year has until this year been taken as the base from which to project the forecasts of expenditure for the succeeding year. Hence the present expenditure of local government has determined the size of the block grant for the future so that, in effect, much of any overspending in one year by local government as a whole has been absorbed into the grant for the next year. In this way the immediate pressure on the rate has been relieved. At the same time expectations have been created of yet further assistance for increased expenditure in the future.⁽⁹⁾

The new attempts to develop new budgetary concepts in local government (discussed later in this chapter) are intended to overcome such weakness.

This section is divided into two sub-sections to examine briefly the two main components of the financial system in local authorities, expenditure and revenue.

5.4.1 Expenditure

The substantial increase in local authorities' spending has led to the need for improvement in the allocation of resources techniques to

(7) G.B., Local Government Finance (Layfield Report), Cmnd. 6453, London : HMSO, 1976, p.25

(8) Ibid., p.26

(9) Ibid.

ensure effective use of such resources. In order to achieve its objectives and to fulfil the community's needs, the local authority must utilise its limited resources in a way that the value for money can be obtained. This, it has been suggested, could not be accomplished unless the local authority moves from a static to a dynamic state.⁽¹⁰⁾ More will be said on this in section 5.6.2.

Table 5.1 shows the actual expenditure in money terms by local authorities in Great Britain for the financial years 1964/65, 1967/68, 1970/71 and 1973/74, with its percentage of total public expenditure. According to the Green Paper on the Future Shape of Local Government Finance: "Local authority expenditure is one of the fastest growing elements in public expenditure. Throughout the first half of the 1960s it grew about 6 per cent a year in constant prices - about twice as fast as the growth of the economy as a whole".⁽¹¹⁾ Also, the Paper mentioned the fact that the cost of providing local authority services is increasing faster than costs in general. These factors have put more pressures on local authorities to improve their methods of planning, management and control in order to be more effective and more efficient. That is, to achieve the nation's objective of the citizens well-being, it is essential to plan and manage more effectively the way in which large sums of public funds are spent every year. Experience suggests that, this objective will not be achieved unless changes are introduced to both management structure and management process.⁽¹²⁾ This will be explored further in the next section.

(10) J.D. Stewart, Management in Local Government : A Viewpoint, London : C. Knight & Co.Ltd., 1971, pp.33-34

(11) G.B., Green Paper on The Future Shape of Local Government Finance, Cmnd. 4741, London : HMSO, p.2

(12) Stewart, op. cit., p.26

Table 5.1

Local Government Expenditure, Selected Years

	£m			
	1964/65	1967/68	1970/71	1973/74
Revenue expenditure	3,236	4,433	6,899	10,734
Capital expenditure	1,373	1,791	2,330	4,137
Total	4,609	6,224	9,229	14,871
% increase	-	35.0	48.3	61.1
% of total public expenditure	36.1	35.5	42.2	46.3
Total public expenditure	12,759	17,530	21,880	32,153

Source: England & Wales : Local Government Financial Statistics, 1973/74
 Scotland & Total: Annual Abstract of Statistics, 1975

The sharp rise in local government expenditure, as Table 5.1 shows, can be attributed to three main reasons:

1. the increasing demand by central government and the public for more services with higher standards;
2. the growth in population; and
3. the increase in costs and inflation.

Central government has introduced severe restrictions on local government spending as a part of a national policy to contain public expenditure as a whole. As a result, a no-growth policy has been adopted by local authorities. This situation has led many authorities to become more rigorous in appraising priorities by using more policy analysis to make the least harm to planned programmes. It has led to the need for identification of both lower and higher priorities to respond to any cut in public spending with minimum effect.

5.4.2 REVENUE

There are three sources from which the local authority receives its revenue:

- a. rates levied on local inhabitants;
- b. grants made by the central government; and
- c. charges made on the users of particular services.

As can be seen from Table 5.2, local authorities have been increasingly dependent on the grants from central government to finance their activities. This has been one of the main problems facing the local authorities because of the intervention from central government over the way it allocates such grants. The percentage of government grants to total revenue has increased from 27.4% in 1964/65 to 30.6% in 1973/74 and the proportion of grants to rates has increased from 54% to 63% during the same period, which obviously indicates the increasing importance of such grants to local authorities, and it would mean also less autonomy in carrying out their spending plans.

Table 5.2

Total Income of Local Authorities, Selected Years

	£m							
	<u>1964/65</u>	<u>%</u>	<u>1967/68</u>	<u>%</u>	<u>1970/71</u>	<u>%</u>	<u>1973/74</u>	<u>%</u>
Rates	1,107	23.6	1,474	23.4	1,839	19.9	2,682	17.8
Grants	1,288	27.4	1,882	29.8	2,704	29.3	4,602	30.6
Other income	1,099	23.4	1,498	23.8	2,880	31.2	4,445	29.6
Loans	1,203	25.6	1,453	23.0	1,813	19.6	3,302	22.0
Total	4,697	100.0	6,307	100.0	9,236	100.0	15,031	100.0
Proportion of grants to rates	54:46		56:44		60:40		63:37	

Source: England & Wales : Local Government Financial Statistics, 1973/74
 Scotland : Annual Abstract of Statistics, 1975

The Layfield Committee on local government finance has realised the need for the local authorities to raise their own revenue in order to reduce the large share of central government. It proposed the introduction of a new local income tax to be levied by local authorities. This new source of income would allow them to have more freedom in deciding their spending policy guided by national policy. Also, long before the Layfield Committee, the Committee on Management of Local Government in 1967 had emphasised the need for additional sources of revenue to be available to local authorities in order "to have the degree of independence for which we seek".⁽¹³⁾

Two main problems arise from the increasing dependence on central government grants. On the one hand, since central government provides a large amount of the local authority's income, it "would be accountable for how it was spent".⁽¹⁴⁾ This would mean less autonomy for the local authority to decide its spending policy, and the required accountability, as the Layfield Report argues, would not be maintained.

If local authorities are to be accountable they should be responsible to their electorates for both the expenditure they incur and the revenue they raise to finance it, and particularly for increases in both.

That requirement cannot be met if the government continues to make itself responsible for financing growth. So the first need is for grants to have far less significance in decisions about changes in expenditure levels.⁽¹⁵⁾

The Report emphasises the need for a coherent financial system for local government in order to ensure efficiency in the use of resources. It considers the concept of accountability as the basis for such systems, "whoever is responsible for spending money should also be responsible for

(13) G.B., Ministry of Housing and Local Government, Committee on the Management of Local Government, Management of Local Government, (The Maud Report), Vol. 1, London : HMSO, 1967, p.82

(14) C. Sandford, "Why Efficiency Depends on Accountability", Accountancy, July 1976, p.62

(15) Layfield Report, op. cit., p.283

raising it so that the amount of expenditure is subject to democratic control".⁽¹⁶⁾

On the other hand, the government may decide to cut its share at any time as in fact did happen in November 1976 when the government announced its decision to reduce its contribution to local government revenue for the year 1977/78 from 65.5% to 61% and again in 1977 it announced its intention to reduce the amount of local government spending it pays for from 61% to 59% for the year 1978/79.⁽¹⁷⁾ Since local authorities have already built their plans on the agreed government contribution, a cut in the services and an average rate increase of 15% is expected. Hence, the local citizen would be paying more money for less services.

Every local authority is now facing the hard choice of having to appraise its whole range of services and programmes in order to make the necessary cut with the minimum burden. This situation supports the argument that local authorities need to raise their own revenue. However, there has been disagreement as to how this should be achieved, if, for example, a new local income tax is proposed as a resource for local revenue to have some degree of independence. Cripps and Goldley in a recent book do not agree with the Layfield Committee on the need for a local tax. They argue that the present sources of income available to a local authority are sufficient enough to maintain its autonomy, accountability, and equalisation.⁽¹⁸⁾

Furthermore, the Treasury does not agree with the Committee's recommendation of the introduction of a local income tax as a means of more financial independence for local authorities. In the Treasury's

(16) Ibid.

(17) The Times, August 10, 1977

(18) Cripps and Godley, op. cit.

view, an introduction of such a tax would impede the government's fiscal policy on the one hand, and "the government would no longer be able to exert a sufficient measure of influence on local government spending", on the other.⁽¹⁹⁾

5.5 ORGANISATIONAL STRUCTURE AND DECISION MAKING PROCESS

Decisions in local government are basically taken by the elected members. So, in effect, the local authority is run on a political base.⁽²⁰⁾ This factor must be borne in mind when discussing the various aspects of local government. Therefore, the best we can do to ensure effective and rational decisions by elected members is to provide them with relevant, up-to-date, accurate, and comprehensive information together with the necessary technical advice. The elected members, not the officers for example, who make the decisions to choose between building a new school or a new health clinic. However, it is the duty of the officers to provide all the necessary information in a systematic way to enable elected members to make a rational decision between the two alternatives.

A pure rational model of decision making cannot be achieved because of the limitation of our knowledge, and the existence of uncertainty.⁽²¹⁾ That is, a pure model would be a real one if we could identify all alternatives and predict future events without uncertainty. Since this can never be achieved, the pure rational model is impossible to develop. The existing managerial techniques, however, offer a considerable help in reducing, but not eliminating, the degree of uncertainty.

(19) The Times, October 16, 1976

(20) T. Eddison, Local Government : Management and Corporate Planning, London : Leonard Hill Books, 1975, p.165

(21) Stewart, op. cit., p.31

It is important to mention that, such techniques which have been developed and applied successfully in the private sector have a great potential in contributing to the improvement of decisions in local government provided that, the nature and circumstances of the local authority must be considered carefully.⁽²²⁾

Perhaps the most difficult aspect in the local authority, apart from the political forces, is the nature of the activities that these authorities are undertaking. In other words, the output is mainly services to the public which are very difficult, if not impossible, to measure in money terms. Although there is no quantitative criterion of success in the local authority, such as profit in a private firm, attempts have been made to measure the output of service by using some indicators of effectiveness.

As Figure 5.1 shows, the local authority is divided into several departments where each department is responsible for undertaking a major activity, e.g. education, within the policy formulated by the council. A department is headed by a chief officer who is responsible directly to the Chief Executive. The Chief Executive in a local authority is the head of the paid officials without a departmental responsibility. The need for a departmental system has been considered essential because of the nature of the local authority as a large-scale organisation.

Another important feature of local government structure is the committee system. Each committee is formed by a number of elected members who are responsible for making the decisions and plans on one of the authority's major activities. For example, the housing committee is responsible for the allocation of resources made available to the housing programmes. The committee reaches its decisions on the basis of

(22) Ibid., p.27.

Figure 5.1

The Formal Processes of Decision-Making
in a Local Authority



information provided by the housing department or any other department and in the light of the authority's objectives on housing. Information on the needs and problems of the community, related to housing, economic and social data, data on population and environment, and government regulations and requirements on housing. During this process the members of the committee of course work very close with the officers in the housing department and any other service department, the treasury department for example, to obtain information or to seek any technical advice. Thus, a good and harmonious relationship between elected members and officers is very essential for effective management. The Bains Report has emphasised the need for such a relationship. "There must be clear understanding by members and officers of their respective roles so they can forge an effective partnership".⁽²³⁾ It is important also to maintain such a relationship and to ensure that the authority's business is carried out as planned, and that some delegation from members to officers must be secured. The Bains Report indeed has recognised the need for a certain delegation to officers.⁽²⁴⁾ Of course there must be a certain limitation on such delegation to allow the members to control the authority's activities.

Each committee after formulating the policies and programmes of the activity of which it is responsible for, submits these programmes to the council for approval and to be implemented by the departments concerned.

Although the system of committees in local authorities has been criticised by many people, it has been established to overcome the problem that the council cannot deal with all the detailed business in the meetings of the full council. However, following the publication of the Maud Report

(23) Bains Report, op. cit., p.xiv.

(24) Ibid.

on Management in Local Government which criticised the large number of departments and committees, many authorities have accepted its recommendation for the need to reduce the number of departments and committees as a means of increasing management efficiency.

The traditional organisation structure in local government has been under criticism for a number of years now. The Maud Committee of 1967 has contributed greatly to the recognition of the need for organisational changes in local government to make it more efficient. The Report has raised the following organisational issues:

1. The need for a committee to give unity of direction at member level
2. A reduction in the number of committees
3. A review of the division of functions between members and officers, i.e. increased delegation
4. The need for the Clerk as Chief Executive Officer to give unity of direction at officer level
5. A reduction in the number of departments⁽²⁵⁾

The deficiencies in local government system of administration were outlined by McKinsey and Company Inc., in their report on the case of Liverpool:

- A. The corporation has difficulty in deciding priorities rationally and planning effectively.
- B. The corporation has little or no control over departmental efficiency and effectiveness.⁽²⁶⁾

and according to the report, "the City has neither the organisation structure, nor the planning system, nor the management methods commensurate with the job".⁽²⁷⁾

(25) Maud Report, op. cit., p.160

(26) Quoted by Eddison, op. cit., pp.147-148

(27) Ibid., p.148

It is appropriate at this point to mention the fact that the recommendations made by the McKinsey Report to the City of Liverpool were considered by many local government officials as unworkable. However, it was widely accepted that the analysis of the problems and issues facing that authority were adequately characterised. The experience of Liverpool, no doubt, has affected the attitude of many local authorities toward consultancy firms. Many believe that any workable solution to local government problems can only emerge from the local government people themselves. More will be said on this in Chapter 8.

Also the Bains Report of 1972 identified some of these issues. The basic recommendation of the Report was the need for the local authority to adopt the corporate approach to planning and management in order to use resources effectively and efficiently.⁽²⁸⁾

The response to these Reports by local authorities varied from one authority to another. However, it is safe to say that in general, both the Maud and Bains Reports have had a deep influence on the attitudes of many local authorities towards the need for organisational changes.

The Bains Report has influenced many organisational changes in local government. The basic changes were the appointment of a Chief Executive as a head of the paid officials without any departmental responsibilities, and the establishment of a central policy and resource committee to "aid the authorities in setting objectives and priorities, co-ordinating and controlling the implementation of these objectives, and monitoring and reviewing performance".⁽²⁹⁾ These basic proposals are, in the committee's view, required in order to adopt the corporate approach to planning and management. The need for a central committee, as proposed by Bains, stems

(28) Bains Report, op. cit., p.xv

(29) Ibid., p.xv

from the fact that committees are working in isolation from each other and a committee as such would make the work of various departments and committees more effective by looking at their activities as a whole.

Normally, the central policy committee is responsible for formulating the long-term strategies and policies for each major activity. The detailed short-term plans are intended to be in accordance with the long-term policy and in the light of the resources allocated and is the responsibility of the committee concerned with the particular activity. In Coventry City, for example, "in relation to budgeting and financial control, the Policy Advisory Committee is responsible for the long term strategic matters and the Finance Committee for the short-term tactical matters within the long-term strategy".⁽³⁰⁾ The Programme Area Teams in Coventry are responsible for formulating policy advice at the officer level where each team is responsible for one of the main programmes and it includes representatives from departments related to that programme.

The corporate approach proposed by the Bains Report has been criticised by some officers in local government for its practical difficulties. Its application has led, in their opinion, to the situation where there is too much centralisation. Recently at Avon, which had adopted the corporate approach, the Chief Education Officer has resigned because, as he claims, he and his departmental staff cannot participate efficiently in the education services in Avon. He had the following to say in his statement of resignation:

I do not and cannot exercise the responsibilities the education committee and your schools and colleges expected of me and my departmental staff. The management of the education service is fragmented between so many committees that there is no united or effective direction of it.⁽³¹⁾

(30) D.A. Hallows, ed., Developments in Budgetary Procedures in British Local Government, Occasional Papers, Series B, Institute of Local Government Studies, University of Birmingham, October 1974, p.16

(31) The Guardian, 6 December 1976

Another educational officer who supports the corporate approach but criticises its current practice, has said that:

The Bains Report of 1972, which initially recommended corporate management systems to the new local authorities, was 20 years out of date in its thinking. It took the idea of centralised resource management from industry when industry itself was moving back to decentralised systems. Those wanting to evolve a suitable corporate approach for local government would do better to forget Bains and look at what is already happening in education.⁽³²⁾

These two quotations show how the corporate approach led in some authorities to more centralisation and subsequently serious problems have emerged in the management process. However, what is happening in such authorities cannot simply be attributed to the corporate approach which seeks effective decision making by looking at the authority's activities as a whole to avoid fragmentation and duplication. The Bains Report, on the other hand, as indicated earlier, emphasised the need for more delegation from members to officers, and a good relationship between them, in order to run the business of the authority more efficiently and effectively. It is important to stress the point that the corporate approach does not mean too much centralisation, rather, it aims for more co-ordination between the various committees and departments. Thus, it is essential to plan the future activities of the authority by a central unit and at the same time, it is the duty of each departmental service to implement the policy formulated by that unit in an effective way. The elected members should not interfere too much in the day-to-day management which is the responsibility of the officers. Corporate planning will be discussed in detail in the next section.

To conclude this section, it is appropriate to mention that one significant feature of a corporate planning approach, that is the role of the budget and the need for its improvement, has not been considered by the Bains Report. The budget is an administrative device in which the

(32) Ibid.

financial implications of the authority's plans and decisions are reflected. In order to be an effective device, it must be based on programmes and there should be a greater link between planning and budgeting. The traditional form of the budget and its limitations to one year only has resulted in a weak link between budget and planning.

5.6 PROGRAMME BUDGETING AND CORPORATE PLANNING

The traditional management of local government has witnessed a tremendous challenge during the last decade. As indicated earlier in this chapter, the publication of the Maud Report in 1967 and the Bains Report in 1972 have revealed the weaknesses and deficiencies in the way that local authorities manage their affairs. As a response to these two reports and the report of the Royal Commission on Local Government in England, many authorities attempted to introduce organisation changes to improve the process of decision making.

The growing need for a new approach to the problem of planning, management, and control in local government stems from the following weaknesses which can be found in the authority's traditional approach of management:

1. Objectives are not defined as clearly as they should be
2. There is a lack of effective identification of the community needs and problems
3. In particular there is a slow response to the changing environment, and problems and needs of the people
4. Little attempt to use in-depth analysis of alternative programmes in terms of their costs, benefits or their effectiveness in achieving justified objectives
5. Short decision period and subsequently the future implications of present decisions would not be considered adequately
6. The use of a traditional budgetary system which is based on input expenditure. This type of budget puts more emphasis on financial control without consideration of the output of expenditure.

7. The functions of planning, budgeting, and control are not related to each other in an effective and systematic way.

As a response to these weaknesses, a number of new approaches have been developed. Programme budgeting (PPBS) and corporate planning are the two main systems that have been adopted recently by some British local authorities to aid them in improving the quality of decisions on resource allocation to achieve both efficiency, that is to obtain the maximum benefit from a certain amount of resource, and effectiveness, which refers to the authority's ability to fulfil the community needs through its services. The effectiveness concept will be discussed more later in this section.

5.6.1 PROGRAMME BUDGETING (PPBS)

PPB System was discussed in some detail in Chapter 3. There, it was shown that the system was originally developed in the U.S. in the Department of Defence in the early 1960's with a considerable success. This success has led to the decision to introduce the system to the whole federal government in 1965. The application of the PPB in the government departments did not achieve the expected results. Many state and local organisations in the U.S. have tried the system with various degrees of success. But in general, the American experience suggests that the PPBS system, in spite of its practical difficulties, could improve the quality of decisions provided that adequate and careful preparations for its introduction were considered in advance.

In this section the PB system is discussed in the context of British local government.

Some of the British local authorities (such as the Greater London Council and Gloucestershire) were very aware of the need for a new approach to the decision making in local government to overcome the

weaknesses of the traditional approaches and their limitations. The American PPB pilot project on the implementation of the system in five states, five counties, and five cities⁽³³⁾ was seriously considered by many local authorities in this country as a possible application of the PPB system. Nevertheless, the majority of British local authorities did not consider the possibility of introducing the PPB system partly because of its disappointing results in America, and partly because of its requirements for the use of advanced analytical techniques. (See the following chapters). Most of the authorities have found a corporate planning system more practical and easier to introduce.

However, there are two authorities (Greater London Council and Gloucestershire) which deeply engaged in developing PPB and have achieved encouraging results. In relation to the GLC experience, Pugh has stated:

The introduction of the PPB system has rearranged the emphasis from a purely departmental-based management-by-objectives approach towards an overall set of programme objectives. Under the PPB system the accounting and reporting systems are extended beyond the traditional control and departmental management purposes.⁽³⁴⁾

And in Gloucestershire, the Treasurer has indicated that the gradual approach to the PPB system in the authority "has had some very beneficial results in that during the experimental years the concept of PPB has become an instinctive part of management thinking and has undoubtedly influenced many aspects of service development and re-appraisal, including both the revenue and capital priority ranking exercises".⁽³⁵⁾

(33) George Washington University, State-Local Finance Project, PPB Pilot Project Reports : From the Participating Five States, Five Counties, and Five Cities, Washington D.C. : George Washington University, February, 1969.

(34) C. Pugh, "Introduction of a Planning-Programming-Budgeting System", The Australian Accountant, Vol. 44, No. 11, (December 1974), p.648

(35) Hallows, op. cit., p.28

The idea of introducing a PPB system in the GLC first appeared in 1969 as a result of a task force study. The council approved this recommendation in February 1970. The aim was to introduce a management system for the authority as a whole to use resources more effectively.

The first budget to be prepared in PPBS form was the 1973/74 budget. It was based on six main programmes; Arts and Recreation; Housing; Public Health and Safety; Strategic Planning; Transportation; and General Services. Each one of these programmes was intended to meet a major set of the Council's objectives. In the budgetary document, the budget for 1973/74 and projections for the following four years were presented. Every programme and sub-programme contains detailed non-financial information, overall objective and sub-objectives, and the detailed money required for the budget year as well as the subsequent four years. Appendix E presents one major programme and its sub-programmes from the GLC as an example of the budget format within a PPB system.

In Gloucestershire, the new PPB system was first introduced to the transportation department as a feasibility study. The result was encouraging and the system was expanded to cover all programmes in 1969. The system has generated enormous amounts of information which is used in making allocation decisions. The following are the documented developments of the system in Gloucestershire: (See Appendix F)

- (a) The definition of overall objectives for the major services,
- (b) The drawing up of programme structures of sub-objectives and activities which contribute towards the objectives,
- (c) The preparation of programme budgets for all programme areas,
- (d) The identification of tentative intermediate and final output measures together with information on their availability,
- (e) A few activities have been the subject of issue analysis reports,
- (f) Position statements are almost complete showing the present activities of the Council and the policies attached to them. (36)

5.6.2 CORPORATE PLANNING

Corporate planning in its simple definition means the effective utilisation of available resources in order to fulfil the community's needs in both short and long term. It is important to stress the point that corporate planning is not a panacea. However, if it is applied effectively, it could improve the quality of decisions by clearly defining the public needs and the authority's objectives, and establishing priorities.⁽³⁷⁾

The purpose of corporate planning is to bring together into one coordinated and structured document information on the council's services and policies, its activities and the essential information on the needs of people for which the services are designed.

Its function is to assess, to coordinate, and above all, to plan over a period which can be foreseen with reasonable accuracy.⁽³⁸⁾

Corporate planning, within the local government context, is simply the planning of the authority's activities in the light of the local community's needs and problems. Planning within a corporate approach means planning as an authority not by departments working independently. It is important to look at and to consider the authority's activities together so as to identify priorities according to needs. The traditional departmental structure does not fulfil this requirement. Corporate planning requires that departmental boundaries must be ignored in making allocation decisions. Indeed, one of the main advantages of a corporate approach is that it helps the people in the authority to think and work beyond their departmental boundaries.

According to Skitt, the following were the major weaknesses in local government which led to the need for a corporate approach to planning and management:

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- (37) P.A. International Management Consultants Ltd., Introducing Policy or Corporate Planning into Local Government : Report No. 1 : A Basic Handbook, London : P.A. International, May 1975, p.2
- (38) R.C. Mitchinson, "What is corporate planning?" Local Government Chronicle, September 20, 1974, p.914

1. There was too much emphasis on 'departmentalism', with departments acting independently, or in conflict with others ...
2. there was insufficient recognition of the relationships between the services provided, and that the increasing complexity of services intensified their interdependence;
3. the budgetary processes explained, if you could understand them, what resources went into services, but did not show how the resources invested compared with the end product - the service provided;
4. there was too little attention to asking why services were being provided and what needs the local authority was seeking to meet;
5. too often councillors were presented with insufficient, or not fully relevant, information on which to base long term and important decisions;
6. the organisational structures and processes often inhibited effective management. (39)

According to Eddison, more and more local authorities are moving toward a corporate approach in policy planning. Such a move can be identified by several new forms in policy planning. Position statements, performance reviews, programme management system, issues analysis, and the use of data and techniques are examples of practical beginnings to corporate planning. (40)

The Bains Report of 1972 has recommended the use of a corporate approach in planning and managing the affairs of local authorities to obtain the maximum benefit from their resources. (41)

In order to understand what is a corporate planning system, it is appropriate to review briefly its basic individual elements within a local authority framework.

(39) J. Skitt, ed., Practical Corporate Planning in Local Government, London : Leonard Hill Books, 1975, p.2

(40) Eddison, op. cit., p.190

(41) Bains Report, op. cit., p.xv

A. IDENTIFICATION OF THE PROBLEMS AND NEEDS OF THE LOCAL COMMUNITY:

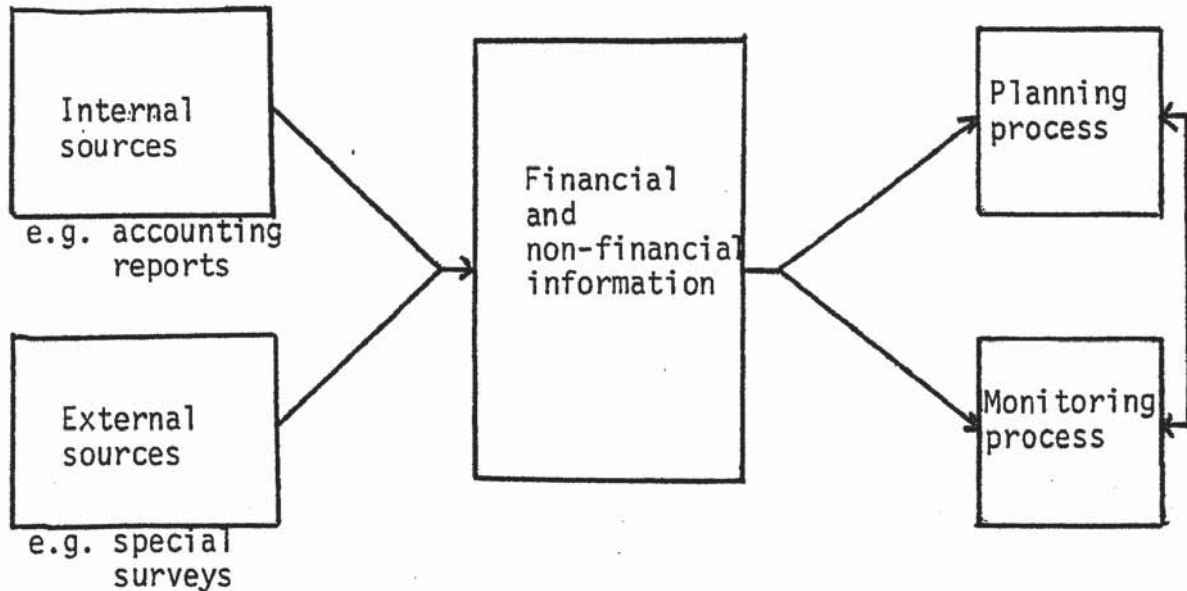
This is the starting point in which the authority collects and analyses the necessary data and information about the surrounding environment and its future trend, and accordingly the public needs and problems can be identified. Collecting and interpreting data is very essential for implementing an effective system of corporate planning.

Information generally can be divided into financial and non-financial information. There are two main sources from which the authority may collect the needed information, internal sources and external sources. As Figure 5.2 shows, internal sources refer to the internal financial reports and files, past experience information, and all correspondence from the public concerning complaints or suggestions. Internal sources could play an important role in providing very valuable data and such data are not used to their full by local authorities.⁽⁴²⁾

External sources include special surveys carried out by the authority, the Census, and information obtained from the media about community needs and problems. Perhaps the best way of obtaining information would be a special survey carried out by the authority to gather data on needs and problems on a particular service, e.g. housing. The high cost of carrying out such surveys is the main reason for their limited use. One practical solution is the cooperation and coordination between local authorities to make available the results of conducted surveys to be used by the other authorities. This would reduce enormously the cost of obtaining information.

(42) Stewart, op. cit., p.35

Figure 5.2

Information System in the Local Authority

Perhaps it is appropriate at this point to stress the significance of the accounting system as a source of financial information. Accounting information is one of the main parts of the information system. Such information is required in two main processes, the planning process and monitoring process. Decision makers need financial information as well as non-financial information to make rational decisions. The monitoring process is basically performed on the basis of the accounting reports and statements on actual performance. Therefore, in order to have an adequate information system, the organisation must have a sound accounting system to produce accurate financial information. Surely, the inadequacy of existing government accounting systems has been one of the main factors in producing inadequate information systems in the public sector.

Although the availability of adequate and relevant information to assess the community's needs and problems is very essential to a local authority, adequate information on those needs and problems cannot be found

in many cases.⁽⁴³⁾ The local authority needs to learn in order to respond quickly and correctly. As Professor Stewart argues, "An organisation does not remain static in a changing environment. It learns; it adjusts; it changes. It has a learning style of management". However, "the present process of management of local government reflect a static style of management".⁽⁴⁴⁾ Management in the public sector in this country is accused of having failed to take advantage of new management techniques developed in the private sector which have a potential contribution to the improvement of decisions in the public sector.⁽⁴⁵⁾

To cope with the changing environment, the local authority not only should identify present needs and problems, it also should be aware of the likely changes in those needs and problems in future. This could only be achieved by adequate information.

Skitt has identified three main reasons for accurate information on needs:⁽⁴⁶⁾

1. To show the current gap between provision and the desired level of service, so that priorities for more resources can be sensibly considered.
2. To forecast future needs both numerically and geographically, and plan provision to meet it in good time.
3. To ensure operational policies are effective in reaching the real need.

To be effective, the local authority must be ready to respond to any environmental changes, and this requires more non-financial information to anticipate future changes.

One must realise that not everything is or can be under the control of a local authority. This fact makes the management task more difficult to carry out. Nevertheless, an understanding of the surrounding

(43) Ibid., p.34

(44) Ibid., pp.33-34

(45) Ibid., p.27

(46) Skitt, op. cit., p.195

environment is very essential to a local authority in order to carry on its activities.

The mere collection of data is not enough. What is important is the analysis and interpretation of such data. Every problem must be analysed in depth to discover its causes, the factors affecting it, and the alternative solutions to solve it. The process of data analysis requires the use of statistical techniques, such as regression analysis, to forecast future trends. (47)

Analysis in this stage starts with critical examination of existing activities to assess their effectiveness in meeting the needs of the community. As a result, cancellation of certain activities or proposals for new ventures could be considered.

Finally, one important point should be borne in mind, that is the problem of, as Ackoff calls it, over abundance of irrelevant information. He explains this problem very clearly as he relates his experience:

My experience indicates that most managers receive much more data (if not information) than they can possibly absorb even if they spend all of their time trying to do so. Hence they already suffer from an information overload. They must spend a great deal of time separating the relevant from the irrelevant and searching for the kernels in the relevant documents. (48)

The need for relevant information in the private firm has been recognised a long time ago. In the public sector, such need is being widely recognised now as a result of introducing new approaches to the management of the public sector.

(47) Ibid., p.199

(48) R. Ackoff, "Management Misinformation Systems", Management Science, Vol. 14., No. 4 (December 1967), pp.B147-8

B. SETTING THE OVERALL OBJECTIVES, POLICIES, AND PRIORITIES

Information obtained in stage one would be used as the basis for establishing the authority's objectives and policies. Normally, a central policy committee at the member level is responsible for formulating the overall objectives and policies in the light of the needs and problems of the local community. Financial resources, as well as manpower and land, likely to be available in both the short and long term should be considered. At this stage, the council will have a clear view of what the authority is trying to do. Each activity should be justified by its contribution toward achieving a certain objective.

The clear definition of objectives would improve the quality of measurement. That is to say, the difficulty of measuring the impact of an activity would be less when the objective of such activity could be identified clearly. Objectives are used as a reference in two processes. First, in the planning process where activities and programmes are considered to accomplish these objectives. Secondly, in the monitoring process where actual performance is evaluated to see its contribution toward achieving those objectives.

Although there are some difficulties in defining objectives of a public organisation, objectives in local authorities could be defined in a meaningful way by obtaining adequate information on needs and problems and on the surrounding environment as discussed previously. In setting objectives, it is imperative to answer the basic question: what are we trying to do? This would provide the base for setting policies and priorities. The need for establishing priorities among different claims is justified by the fact that resources are always limited in relation to wants. Thus, priorities would be defined more easily if information on public needs and problems is available and objectives of the authority are clearly identified.

C. FORMULATING LONG-TERM PLANS

Planning starts with an analysis of the existing position. The identification of current activities, their use of resources, and their impact on public needs is the initial step. This is done in what is known as a position statement in local authorities. The purpose of a position statement is to present the various current activities of the authority to identify the contribution of these activities to achieve the authority's objectives, to specify the problems and deficiencies facing the authority which make the services less effective, and to identify gaps and duplication.

The position statement has been recognised by many authorities as an essential part of the planning activity. It makes the role of the elected member more effective by providing the necessary information.

Local authorities are becoming more and more aware of the importance of planning on a corporate basis to achieve effective and efficient resources utilisation. The traditional organisational structure of local authorities as discussed in the previous section does not achieve effective planning. An attempt to overcome this weakness has been the establishment of a central policy committee in some local authorities to coordinate between committees and to ensure one integrated plan of action for the authority as a whole.

To cope with the environmental changes, the local authority not only identifies the present needs, problems, and objectives, but also it should be aware of the likely changes in those needs and problems in the future. This is not an easy task mainly because of the problem of uncertainty. Indeed, uncertainty is a major problem facing the planner, it results from lack of knowledge.⁽⁴⁹⁾ The surrounding environment is changing and

(49) Stewart, op. cit., p.143

uncertainty remains because not all of the future trends and attitudes can be anticipated. It should be borne in mind that the existence of uncertainty should not lead to the decision not to plan. Rather, the planner should consider the factor of uncertainty and try to reduce such uncertainty by increasing knowledge and by making flexible plans to meet any changing circumstances.

Resources are allocated among various programmes for a number of years ahead by considering two factors, priorities which are developed in the light of the authority's overall policy and objectives, and the amount of resources likely to be available in the future. In addition, information on alternatives to achieve a certain objective should be available. Alternatives are analysed in terms of costs and benefits or effectiveness. It is relatively less difficult to determine costs, which include both capital and current, of the various programmes for several years ahead, although clearly the effect of inflation in recent years has made this particularly difficult. Benefits, however, are more difficult, if not impossible, to measure because of the nature of output produced by local authorities. Nevertheless, some authorities (e.g. Gloucestershire) have been, to some extent, successful in developing effectiveness indicators to assess the contribution of an activity toward achieving a certain objective. At this point, it is better to explain the meaning of effectiveness by giving an empirical example from Gloucestershire.⁽⁵⁰⁾

If we assume that an authority is to install a system of street lighting as a part of a transportation programme to improve the safety of the road as well as reducing crime at night, then, it has to decide between various systems of lighting in terms of their costs and effectiveness. Costs are not too difficult to estimate. The effectiveness of each system is judged by its contribution toward the reduction in the

(50) Hallows, op. cit., p.41

crime rate after its installation. The final choice, thus, is made by considering both costs and effectiveness. The system which yields the largest ratio of effectiveness to costs is to be chosen.

This simple example illustrates the difference between a traditional system of resource allocation, which emphasises the financial control over resources without any consideration of the impact of such resources in achieving a particular objective, and an improved system.

D. FORMULATING THE ANNUAL BUDGET AND FUTURE PROJECTIONS

Corporate planning is about resource allocation. To mention resource allocation is to mention the budget which is the annual detailed financial expression of the long-term plans together with projections for several years ahead. "The budget process is the basic means whereby resource allocation is considered, argued over, revised and finally agreed upon and formalised in the budget which eventually emerges".⁽⁵¹⁾

The budget within a corporate planning framework is an integrated part of the overall policy and strategy of the authority. It is not a separate activity from long-term planning. Indeed, it is a significant part of the corporate planning system.

Unfortunately, the budget in the majority of local authorities still takes the traditional format.⁽⁵²⁾ It is prepared by committees on the basis of previous years. It does not provide the adequate information which is necessary to the decision maker. It aims only to achieve financial control over resources. Hence, it has a limited value for the policy maker.

The emphasis of the traditional budget has been upon expenditure. For financial control all that is necessary, it could be argued, is to set limits to expenditure.

(51) J.L. Livingston, "Organization Goals and the Budget Process", ABACUS, Vol. 11, No.1 (June 1975), p.37

(52) Eddison, op. cit., p.90

For planning it is not sufficient to know what an activity will cost, it is necessary to know what it will achieve. This information is not easy to obtain, or, when obtained, to fit into the framework of a routine annual budget. The budget, however, places no emphasis on the need for such data. (53)

A typical local authority committee budget is shown in Appendix D. It is clear that the budget is classified on an input basis, that is according to a departmental classification in terms of wages, buildings, supplies ... etc. It does not provide any information on output, objectives and the relationship between activities and objectives. If resources are allocated on an output basis rather than input, the impact of such resources could be evaluated.

Although the need to carry out an authority's activity as efficiently as possible, by proper control over its costs, is in itself an objective to be achieved by the authority, the more important issue, which is unfortunately ignored by many authorities, is the impact or effectiveness of such activity toward achieving the authority's objectives. But because the traditional budget is presented in accordance to committee responsibilities, the costs and effectiveness of a particular programme cannot be identified as a result of distributing responsibilities between various committees for similar activities.

Another serious deficiency in the traditional budget is the short time, usually one year, it covers. In effect, the future implications of present decisions would not be known which greatly impair the quality of decisions.

These shortcomings have resulted in a wide dissatisfaction with the traditional budget as an effective administrative device. And although the traditional budget is still much in use, several local authorities have introduced some changes in the way that the budget is prepared and

(53) Stewart, op. cit., pp.61-62

presented to make it an integrated part of the long-term planning process.

To benefit from a corporate planning system, a change in the traditional budget should be sought. The role of the budget in a corporate planning context is so important that a traditional budgetary procedure would impede corporate planning. According to Skitt:

Corporate planning and corporate management are fundamentally about resource allocation, and resource allocation in local government, or indeed any organisation, is tied to some sort of budgetary process. Corporate planning, therefore, unless it does impinge upon the budgetary process in some way, will be regarded by many as a superfluous exercise in planning for planning's sake.⁽⁵⁴⁾

He has suggested the need for "a management control system which will relate expenditure to achievement". To obtain such a system, "the budget must describe resources by:

1. relating programmes for their achievement to the stated objectives;
2. expressing each programme (down to activity level) in terms of the resources expended upon them;
3. reporting on the comparison of actual performance with planned performance;
4. controlling, or the accountability function of bringing into line, actual performance with planned performance".⁽⁵⁵⁾

These requirements would not be accomplished unless the traditional structure of budgeting is changed. The first step is to develop a programme structure where major programmes are intended to attain the authority's major objectives.⁽⁵⁶⁾

The classification of the budget on programme basis would help to cut departmental boundaries by grouping all activities devoted to achieve one objective into one programme regardless of the departmental responsibilities. The following example from Coventry City is provided to explain this point:

(54) Skitt, *op. cit.*, p.91

(55) *Ibid.*, pp.91-3

(56) See Chapter 3 for discussion on programme structure

As an example of the categorisation of activities according to objectives, rather than according to committee and departmental responsibilities, the School Meals Service is within the Community Health and Wellbeing Programme Area while being the responsibility of the Education Committee and the Director of Education ...⁽⁵⁷⁾

The difference between the traditional structure and programme structure of the budget can be seen by a comparison between Appendix D and Appendix E.

It is hoped that a budget formulated on a programme basis would greatly improve the quality of decisions on resource allocation by providing better information.

Finally, it is essential to stress the point that the use of the traditional budget is considered necessary to achieve the financial control (accountability) objective. Thus, it is a common practice to find two types of budget in some local authorities, Islington is an example.⁽⁵⁸⁾ The first type is the traditional form of budget to be used basically for control purposes, and the second type is a programme budget to be used for analysis and planning purposes.

E. MONITORING PROCESS

While there are some writers⁽⁵⁹⁾ who do not consider the monitoring process as part of corporate planning system, the majority do by emphasising the need for ensuring the achievement of the stated objectives at the right time and at the expected cost, and to use the information generated in this process to modify existing plans and to formulate new ones. "The continuous monitoring must feed into the continuing process (planning). Annual reports of progress in relation to the policy plan should make this possible".⁽⁶⁰⁾

Also, the Bains Report of 1972 has laid a particular emphasis on

(57) Hallows, op. cit., p.13

(58) Skitt, op. cit., p.94

(59) For example, Mitchinson, op.cit., p.913

(60) Stewart, op. cit., p.152

monitoring. According to the report, monitoring and reviewing performance is:

An area of activity almost totally ignored in local government yet one of the greatest importance. The member has a vital role. Any management structure must make provision for securing value for money.⁽⁶¹⁾

In addition to the responsibility of the elected members toward ensuring an effective performance review, the report suggests the establishment of a 'performance review sub-committee' as a watchdog body, something similar to the Public Accounts Committee in Parliament.⁽⁶²⁾

The evaluation process is very important for the planners. It means improved programmes and better allocation. By comparing the actual performance against the stated objective on an activity, an improved decision is expected. It is suggested that "without some form of evaluation, learning will not begin. Management will remain static in a changing situation".⁽⁶³⁾ Indeed, the monitoring process aims to ensure that programmes are being carried out effectively and efficiently in meeting the public needs.

Accounting has a great role to play in securing increased efficiency in resource allocation through the measurement of actual performance to determine how efficient was the use of resources and to provide information to the planners. Any wrong basis for such information would give a wrong indication on the past performance and impair plans and decisions as a result of inaccurate data. But the limitations of the accounting system in local government results in additional difficulties in obtaining the relevant information. That is, accounting in local government should extend beyond a mere reporting of expenditure and revenue. There must be a broader responsibility of the accounting functions. This requires, in

(61) Bains Report, op. cit., p.xiv

(62) Ibid., p.25

(63) Stewart, op. cit., p.50

the first place, the establishment of a system of financial reporting.

Such need has been recognised by a number of authorities. The publication of official reports and the work of the Institute of Public Finance are examples.⁽⁶⁴⁾ The establishment of a management accounting structure in some authorities indicates the significance of the role of accounting in securing better decision making. The case of the GLC provides a clear example of such manner.⁽⁶⁵⁾

There is a serious problem in this respect facing the local authorities, the inflation problem. The inflation rate in Britain has been very high and it has caused a lot of difficulties in the planning of expenditure. Accordingly, it is important to distinguish between the real growth in expenditure and the growth due to the inflation. The high rate of inflation has led, further, to a wide dissatisfaction over the historical cost method of accounting which fails to reflect the effect of inflation in the accounts. Thus, these accounts tend to be unrealistic. As a result, some other accounting methods have been suggested to overcome this problem. The current cost accounting method has been proposed recently as the most appropriate method to replace the traditional historical cost in both private and public sectors.⁽⁶⁶⁾

Although a detailed discussion of the inflation problem is beyond the scope of this study, it is essential to emphasise the significance of such an issue to the local authority which should consider and examine the value of the traditional historical cost method in producing the relevant and accurate information, needed by the policy makers, in such situations as a high annual rate of inflation.

(64) Pugh, *op. cit.*, p.652

(65) *Ibid.*, p.653

(66) See *Inflation Accounting*, Report of the Inflation Accounting Committee, (Sandilands Report), Cmnd. 6225, London : HMSO, September 1975. And Exposure Draft No. 18 of the Accounting Standard Committee (*Morpeth Report*), The Institute of Chartered Accountants in England and Wales, 30 November 1976

5.7 Conclusion

The local authority is in a difficult position these days. It has to do its best to fulfil the growing needs of the community, on the one hand, and it has to respond to the central government's requirements to economise in accordance with the general policy of keeping public spending within the means of the nation, on the other hand.

Such a difficult situation has put the local authority under an increasing pressure to use its limited resources more effectively and efficiently to obtain the maximum value for money. This, it has been suggested, could be achieved through the adoption of the corporate approach which enables the local authority to allocate resources through the identification of the needs and the problems of the community, to establish overall objectives, to set long-term plans, to formulate the annual budget and future projection on a programme basis, and to establish control procedures to provide an adequate and effective feedback.

These basic elements of a corporate planning system were discussed in some detail in order to explain the meaning and the aim of this system in improving the resource allocation decisions. The state of development of such systems in local government differs from one authority to another. But in general, more and more local authorities are becoming aware of the need for introducing new approaches and techniques to help the policy makers.

However, the efforts to improve the traditional budgetary approach in local authorities have experienced a variety of problems. Some of these problems are common to any public organisation but some are unique to the local authority. The latter type are concerned with the nature and structure of British local government. Problems in this respect can be classified into two main categories.

The first category relates to the political nature of the local authority. The existence of dualism in the power hierarchy of the local

authority has produced a degree of conflict between members and officers. In addition, the establishment of an effective long-term planning process in the local authority is usually lacking because politicians are normally reluctant to commit themselves to long-term objectives which are very important for planning and monitoring the affairs of the authority.

The second category concerns the financial structure of British local government. As the local authority becomes more and more dependent on central government grants, its autonomy becomes less and less. As a matter of fact, central grants during the last few years accounted for more than 60% of local government revenue. Any cut in such a contribution would have harmful consequences. To avoid such problems, the local authority needs to raise its own revenue and should become fully independent in this respect. One positive solution has been the establishment of a local income tax. This proposal, however, is strongly opposed by Whitehall.

This chapter has depended heavily on material collected through library research, it will be used as the basis for the next four chapters which will be devoted to the analysis of the budget practice in local authorities by using the results of a questionnaire sent to a sample of British local authorities.

PART THREE
BUDGETARY DEVELOPMENTS IN BRITISH LOCAL GOVERNMENT:
THE QUESTIONNAIRE

CHAPTER VI
INTRODUCTION TO THE QUESTIONNAIRE

As discussed in the previous chapter, the recognition of the importance of developing more effective and efficient ways for resource allocation by the majority of local authorities has resulted in an increasing interest among these authorities in new budgetary systems (such as programme budgeting (PB) and corporate planning).

Indeed, the importance of these new approaches can be easily recognised by examining the substantial literature on these systems in particular,⁽¹⁾ and on the ways of improving the planning and budgetary procedures in governmental organisations in general, to obtain the value for money.

It was PB in the USA and later in Great Britain which had a great influence on the field of government budgeting. Unfortunately, the system produced disappointing results in the US Federal Government applications with the exception of the Department of Defence, where it had its greatest success. This failure, as most experts agree, was not because there were any deficiencies in the system itself, rather, it was the manner in which the system had been implemented and the very short period of time in which the federal agencies developed PPBS.⁽²⁾

In the late 1960's, PPBS was received in Great Britain with considerable interest. Specifically, the 5-5-5 Project Report in the USA on five States, five Counties and five Cities, was widely considered by local authorities in Britain. Subsequently the GLC and later Gloucestershire adopted a similar approach to PPBS although the present trend in local government is to favour a system which does not have the complications of PPBS. In consequence, the corporate planning approach has been accepted by many authorities as an effective way to improve the quality of allocation

(1) see Chapters 3 and 5
(2) see Chapter 3

decisions.

The experience of those authorities who developed PB or corporate planning concepts, such as GLC, Gloucestershire and Coventry, suggested that an extended investigation of British authorities could be very useful. A survey by a questionnaire was chosen to carry out such investigation to test a certain set of hypotheses which derived from the previous chapter's discussion on British local government.

The aim of this chapter is to introduce the questionnaire by discussing:

- (a) the objectives
- (b) the design and structure
- (c) the limitations
- (d) the hypotheses
- (e) the analytical techniques.

6.1 THE OBJECTIVES

To study the attitudes of local authorities toward the new budgetary developments and the need for an improved system of budgeting for better resource allocation, it was believed that a primary source of data was essential. Thus a questionnaire was designed to obtain first-hand knowledge and information about:

1. The state of budgetary practices in local authorities.
2. The types and procedures of changes, if any, in the traditional budgeting system.
3. Their perception of the basic requirements for an effective budgetary system.
4. The difficulties and obstacles facing an authority introducing a new budgetary system and how they overcame such problems.
5. The general attitude of local authorities towards the new budgetary systems such as PB and corporate planning.

It was assumed that the questionnaire would provide valuable information on how the new budgetary procedures were working.

It is hoped that such an opportunity would elucidate valuable information from those organisations that had effected budgetary changes. Similarly the information received from those authorities which had not carried out changes could be of great importance, since all responding authorities, whether they had introduced budgetary changes or not, answered the questionnaire, this study will characterise the nature and feelings of these authorities toward the new budgetary changes.

6.2 THE DESIGN AND STRUCTURE

Before designing the final draft of the questionnaire, a series of visits and personal interviews to four local authorities (GLC, Gloucestershire, Coventry and Dudley) were made to find out the attitudes and reactions of local authorities toward such investigations and to consider any suggestions and recommendations concerning the questions. The response was very encouraging and some suggestions and modifications were made to produce the final questionnaire which appears in Appendix A, together with the covering letter, which was addressed to the Treasurer of each authority contacted.

The questionnaire was posted in early 1976 to a sample of 262 local authorities in Great Britain, representing about 50% of all authorities. The names of these authorities are detailed in Appendix B with an indication of the responding authorities. Those authorities were selected according to a stratified random sample using random number tables.

This type of sampling was chosen to ensure that all strata have an equal chance to be in the sample. Authorities were divided into eight basic stratum according to the type of authority (e.g. district council and county council) and according to the area or region (i.e. England, Wales and Scotland). A full classification of authorities and all

related statistics are presented in Appendix C.

In order to ensure that the questionnaire would be considered by all authorities who received it, regardless of the state of its budgetary reform, it was divided into two parts.⁽³⁾ Part one covered the general and introductory questions which were intended to be completed by all authorities. Part two was designed for those authorities who had introduced changes in their budgetary procedures. Some authorities, however, did not complete part two although they had introduced changes. Furthermore, there were other authorities who had not developed new budgetary procedures, but who did not answer part one because they wrongly understood that both parts were to be completed by authorities who had introduced changes.

Nevertheless the response of about 55% must be considered very good. Table C.3 of Appendix C shows the action taken by authorities contacted during the survey.

There is one important point which must be emphasised concerning the design of the questionnaire. The respondents were not restricted to a single choice among the alternatives provided in the questions (see Appendix A). Thus, respondents to most questions tended to select more than one alternative answer. This means that the total presented in most of the tables is in fact greater than the number of individual responses. The aspect of weighting this data will be discussed later in this chapter.

6.3 THE QUESTIONNAIRE'S LIMITATIONS

1. Although the questionnaire was designed to be answered, at least partly, by any local authority, regardless of the state of its budgetary reform, there were some authorities who declined to complete the questionnaire simply because they had not introduced any changes. Such

(3) see Appendix A

misunderstanding would, of course, have affected the rate of response.

2. The decision to utilise a 'multiple choice' questionnaire was intended to achieve two objectives. Firstly, it was assumed that this type of questionnaire would be easier to answer without spending undue time, which it was hoped would result in a higher return. Secondly, this type of design tends to make the task of organising and analysing the answers less difficult. Unfortunately, this was not the case for some authorities. There were a number who objected to the style of the questionnaire and did not complete it for that reason. In their opinion, they could not adequately express their views and make their points clear in such a restricted structure. Thus, some authorities found it easier and more convenient (instead of following the questionnaire) to submit budgetary materials with a brief description of their budgetary systems. These few cases, however, were not included in the analysis of the questionnaire.

There is some validity in their objection to the style of the questionnaire; for there is little doubt that the use of "open" questions would allow the respondents to express their ideas and views in greater depth. But this would introduce a greater problem. In the design of the questionnaire, the author considered the trade-off between a complex structure which would require considerable time and effort to complete yet would give very detailed information from the very few respondents who could find such time, with that represented by the other extreme which was to design the structure in such a way that the questions could be quickly and easily answered. This, it was expected, could produce a very high response rate but the quality of data would be lower. The aim of this study was to achieve an optimum between these two extremes. It should also be borne in mind that in each question an "others" choice was provided to make it more flexible, also, the respondent could write and comment in the space provided if he wished to do so.

3. Many authorities included in the sample were newly established at the time of receiving the questionnaire (as a result of the re-organisation of Local Government in May 1974 for English and Welsh Authorities and May 1975 for Scottish Authorities). This situation affected the answers to question 2 directly and many other questions indirectly.

The response rate would, no doubt, have been higher without the existence of these three limitations. Nevertheless, the response was more than reasonable in that 144 authorities, or about 55%, completed all or part of the questionnaire. Further, valuable financial and budgetary information accompanied the answers of many respondents. Table C.3 of Appendix C summaries the variety of responses from the authorities contacted during the survey.

4. A major limitation in the design of the questionnaire relates to the fact that there was no attempt to rank alternative choices provided in the questions according to their importance. Such a deficiency has actually limited the value of some questions, question 24 for instance. A consideration in not asking the respondents to rank their choices was again to reduce the effort required to answer the questions. It was assumed that there is little doubt that such extra effort could reduce the number of respondents.

Nevertheless, in order to overcome the major part of this limitation, weighted frequencies were determined for those questions which were considered to be significant. (These questions were: 3,9,11,17.d,20, 24.a,24.b,26.a, and 27). To show how these weighted frequencies were determined, see section 6.5.

6.4 THE HYPOTHESES

Local government in Great Britain has been under study and investigation for several years to highlight, for example, its weaknesses and shortcomings in the hope of finding improved ways of using its scarce resources.

As a matter of fact, resources available to local authorities are always insufficient to fully carry out all their activities and to fulfil local community needs. In addition to that local authorities have been under increased pressures from Whitehall to contain their expenditures in accordance with national economic policies. Thus, the local authority has to choose between two difficult alternatives, that is, either to cut its standard of services to the public, or to increase the rates. As a result, local authorities have been trying to improve the quality of their decisions in resource allocation to obtain improved value for money.

The following questionnaire's hypotheses are to be investigated in the following three chapters:

1. That the traditional budgeting procedures in local government have many deficiencies and shortcomings which hinder the effectiveness and efficiency of the resource allocation process.
2. That the new budgetary developments (e.g. PB and corporate planning) could be successful in overcoming the serious shortcomings of the traditional procedures; mainly through integrating planning with budgeting in a meaningful way which includes the consideration of the implication of present decisions on the future.
3. That the traditional budgeting in many local authorities has been affected, in one way or another, by the new developments in particular PB and corporate planning. Also, the introduction of organisational changes during the 1960's and the reorganisation of Local Government in 1974 and 1975 had a significant effect on the resource allocation process. However, it was expected the majority of local authorities introduced new budgetary changes only after reorganisation of local government in 1974 in England and Wales and in 1975 in Scotland.

4. That any changes in the budgetary procedures would bring with them problems and obstacles which would need careful consideration in order to establish the best way of overcoming them.
5. That the full operation of an integrated system of PB, and to a lesser extent corporate planning, would involve many difficulties and problems which would prevent the vast majority of authorities from developing a complete and successful PB system. Thus, it was expected that only a few authorities would develop an integrated system of PB or corporate planning, and that the majority would prefer to adopt only some elements of them. For the purpose of the questionnaire analysis, the new changes introduced by the respondents are classified into two main categories, (1) sophisticated changes which include integrated systems of PB or corporate planning and (2) simple changes which include some elements of PB or corporate planning and other simple changes.
6. That British local authorities would tend to prefer a corporate planning approach over a PB system. The principal reason for this was the fact that a PB system would be very difficult to implement and would require special skills. In addition, many could still doubt its value as compared with the resources and efforts required to implement it.
7. That the application of a new budgetary system could vary from one authority to another depending on a number of factors, among them the size of the authority, availability of skilled staff, degree of the authority's commitment towards such systems, and the influence of the surrounding environment. Therefore, it was expected that a PB system as applied in Britain could differ from the original PPBS developed in the USA. Also, it was

expected that the deeper the authority was engaged in a PB or corporate planning system, the better results it would achieve. Thus, as the authority becomes more familiar and more involved with the new procedures, some modification changes would be inevitable.

8. That political factors would have a major role to play concerning the need to improve the process of resource allocation. Thus, the support of the elected members for any proposed budgetary changes would be essential to ensure the success of such changes. In addition, the support of officers is equally important and must be sought. Another important factor in deciding whether to introduce a new budgetary procedure is the size of the authority. It was expected that scale economies would preclude the majority of small authorities from major budgetary changes.
9. That the development and implementation of the new budgetary procedures would require careful and sufficient preparation to ensure their effectiveness: adequate and up-to-date information systems and skilled staff being among the basic requirements. In some cases, and in particular where the introduction of sophisticated procedures is involved, the operation of the new procedures would require some sort of internal and/or external training programmes for the staff. Moreover, before introducing the proposed budgetary procedures, certain changes in the organisational structure and the accounting and auditing procedures would be required to cope with the new budgetary changes.
10. That for any budgetary development to be effective, long-term planning for both capital and revenue expenditure must be adopted. It was expected that there could be a relationship

between the planning horizon and the introduction of new budgetary procedures.

Also, the monitoring function is considered as an essential part of an effective budgetary process. Traditionally, monitoring aims primarily to achieve financial control over expenditure. As the previous chapter indicates, the new budgetary developments, such as PB and corporate planning, emphasise the importance of the monitoring process not only as a control, but also as a valuable instrument for preparing, improving and auditing the organisation's plans. Thus, it was expected that the authorities who introduced budgetary changes would recognise the important role of the monitoring function in long-term planning.

The above hypotheses are examined in the following three chapters in the light of the questionnaire's findings.

6.5 THE ANALYTICAL TECHNIQUES

A computer package, Statistical Package for the Social Sciences (SPSS), was used to store and manipulate the data generated by the questionnaire,⁽⁴⁾ and it proved invaluable in analysing the results.

The data was analysed using the chi square test (χ^2). This statistical technique was used to test the two hypotheses:

H_0 : null hypothesis, no association between the two variables

H_1 : an association between the two variables.

Where one or more of the expected cell values of a contingency table are less than 5, the accuracy and power of chi square test is greatly

(4) Nie, N., Bent, D.H., Hull. C.H., Statistical Package for the Social Sciences (SPSS), New York : McGraw Book Company, 1970

reduced. In these cases the Fisher exact probability test was used. This latter test, although normally tedious in terms of lengthy computations, gives the exact probability of all possible outcomes and this is superior to the chi square test. Assistance was given with the writing of a simple BASIC computer programme which greatly reduced the tedium in calculating the probability of each possible arrangement.

Due to rounding errors in the computer system, there is an inherent error in the Fisher exact test. However, this error is relatively small and could not be improved by the use of manual techniques (e.g. calculator) but would require the use of a larger computer.

The Fisher exact test is applicable only to 2x2 contingency tables; thus for those contingency tables greater than 2x2 where the chi square test could not be ideally used, there were three choices:

- (a) Re-classifying data to remove the cells that have the low expected values by combining with other similar groups;
- (b) Re-classifying the data as a 2x2 table and use the Fisher exact test;
- (c) Use the chi square test with the reservation that the result must be treated with care.

In this study where the problems of low expected values were encountered, the most appropriate of the three options detailed above was utilised.

As discussed in section 6.3 selected questions were analysed using weighted responses. Throughout the study simple (unweighted) frequencies were reported and resort was only made to weighted responses in those questions that were considered to be important. Various weighting techniques were given consideration but as the questionnaire did not require the respondents to indicate their order of choice it was decided to give an equal weight to each choice. Thus, if a respondent ticked two choices each was given half a point; if three were indicated then a third

of a point was allocated to each answer, and so on.

The findings of the questionnaire are reported in the next three chapters. Chapter 7 is devoted to part one of the questionnaire which analyses the replies from all responding authorities, this includes both those which had introduced new budgetary changes and those which had not. The findings of part two of the questionnaire, those authorities which have introduced new budgetary changes, are discussed in Chapters 8 and 9. Chapter 9 also includes a summary and the concluding remarks on the results of the questionnaire.

CHAPTER VII
ANALYSIS OF THE QUESTIONNAIRE:
FINDINGS OF PART ONE

Part one of the questionnaire was included to enable all authorities to participate in the survey regardless of their state of budgetary reform since it dealt only with introductory and general questions. Although there were some authorities who misunderstood this intention and did not complete part one, the response was very high and 144 authorities have completed this part.

The answers to part one are discussed under seven main headings:

1. Changes in the budgetary system
2. The effect of an authority's size, type and political control
3. Programme budgeting versus corporate planning
4. Local governments' organisational changes during the 1960's
5. Forward planning
6. Monitoring process, and
7. The effectiveness of programme budgeting and corporate planning.

7.1 CHANGES IN THE BUDGETARY SYSTEM

Local authorities are becoming more and more aware of the limitations of the traditional budgeting procedures, which were discussed in Chapter 5, as an effective means for resource allocation. The survey has shown that 66 authorities (46%) introduced either minor or major changes in their budgetary systems. These changes have varied from an integrated system of PB or corporate planning to the incorporation of only some elements of these two systems or of other similar approaches.

From Table 7.1 it can be seen that the majority of respondents (51%) introduced changes identified as "some elements of corporate planning". On the other hand, only two authorities (GLC and Gloucestershire) have adopted an integrated system of PB, and only six authorities (Coventry, Sunderland, Cambridge, Derby, East Devon and Lambeth) have adopted a complete system of corporate planning. The components of these systems as applied by the different authorities will be discussed in section 9.1.

Table 7.1 further shows that 18 authorities have developed new budgetary procedures other than those mentioned in the questionnaire. These changes include policy options, achievement budgeting, project appraisal, a programme structure budget, budgeting for growth and inflation, growth allocation system, targets budgeting, rates planning schemes, rates rationing and measurement of need against progress.

Table 7.1

What kind of budgeting changes have been introduced?

Type of changes	Frequency of response	%
Some elements of corporate planning	47	50.5
Some elements of programme budgeting (PPBS)	20	21.5
An integrated system of corporate planning	6	6.5
An integrated system of programme budgeting (PPBS)	2	2.2
Others	18	19.3
	Total	93
Total responding authorities		65
Non-responding authorities		1

It is interesting to note that a number of authorities have mentioned that they have been adopting some or all elements of PB or corporate planning for many years without using any specific title. As one respondent put it:

Taking paragraph 9 (of the questionnaire) as a basis on which to express our sentiments in this matter, I would suggest that we, in common with most, if not all local authorities, have been practising four of five heads mentioned for many years without ascribing a specific title to such practice. The allocation of resources for several years to come is an aspect which has been brought in use by a number of authorities during the immediate past, and is a target we would hope to achieve ourselves as a matter of course without regarding this exercise as specifically related to PPBS or corporate planning.

Also, the following comment has been written by another respondent concerning PB and corporate planning. "We regard them as merely polarising and publishing practices which have been adopted to a greater or lesser degree for many years."

These two comments reflect, no doubt, the reactions of many other local authorities toward PB and corporate planning. It is true that some elements of these systems have been practised by local authorities for some time and there is in this sense nothing new about the individual components of PPB or corporate planning. But what is new is the attempt to compile such elements under one integrated system with specific procedures and stages to follow and with assigned responsibilities. Such a system might be called PB, corporate planning, or any other name. The title is not important. What is important, however, is the realisation by local authorities that traditional budgetary procedures are no longer suitable for the increasing complexity of local government activities and its responsibility toward meeting the needs of the community.

Finally, it is essential to mention that there are many authorities who have come into existence only since 1974 or 1975. For those authorities, the time span has been insufficient to consider the introduction of any changes. (See Table C.3, Appendix C).

For the purpose of the analysis of the questionnaire the budgetary changes introduced by the authorities are classified into two main categories, sophisticated changes and simple changes. Integrated systems of PB and corporate planning are combined to indicate sophisticated changes.

Some elements of PB, some elements of corporate planning, and other similar changes are combined to indicate simple changes. Thus, Table 7.2 is presented according to this new classification:

Table 7.2

Type of budgetary changes	Frequency of response	%
Sophisticated changes	8	8.7
Simple changes	85	91.3
Total	93	100.0

From the above table it is clear that the vast majority of authorities have adopted a simple approach toward improving their budgetary process.

7.2 THE EFFECT OF AN AUTHORITY'S SIZE, TYPE AND POLITICAL CONTROL

Generally speaking, it is probably safe to say that larger authorities are more likely to be capable of developing and introducing new ideas and techniques than smaller authorities, mainly because they have advantages in terms of resources, both human and financial.

Tables 7.3 and 7.4 are provided to substantiate the validity of this statement. The first, Table 7.3, shows the relationship between the size of authorities (small, medium and large), according to their population, and the introduction of new budgetary changes. As the table shows the percentage of authorities who introduced changes increases as the size of the authority increases. For the small authorities (less than 100,000 people), the percentage was 24.6, for medium-sized (100,000-499,999), it was 61.9, and for the large authorities (500,000 and over), it was 68.8.

Although the results of this table would seem obvious enough, it was confirmed by statistical analysis; the chi square of Table 7.3 was 21.72 with 2 degrees of freedom which is statistically significant at

Table 7.3

Breakdown of the responding authorities
according to their population size in relation to
the introduction of new budgetary changes

Population* (000's)	Have you introduced new budgetary changes?							
	Yes			No			Total	
	No.	Col.%	Row %	No.	Col.%	Row %	No.	%
Less than 100	16	24.2	24.6	49	62.8	75.4	65	45.1
100 -	39	59.1	61.9	24	30.8	38.1	63	43.8
500 -	11	16.7	68.8	5	6.4	31.2	16	11.1
Total	66		45.8	78		54.2	144	

Table 7.4

Type of budgetary changes in relation
to the size of authorities

Authorities size (population)*	Type of budgetary changes					
	Simple		Sophisticated		Total	
	Freq.	%	Freq.	%	Freq.	%
Small	21	24.7	-	-	21	22.6
Medium and large	64	75.3	8	100	72	77.4
Total	85	91.4	8	8.6	93	

* From Municipal Year Book, 1976

the 0.1 per cent level. Thus, we conclude that the null hypothesis (H_0) is rejected which means that there is a significant relationship between the size of the authority and the introduction of new budgetary changes.

Table 7.4 classifies the responding authorities who introduced changes into two categories, small authorities and medium and large authorities (medium and large authorities are combined in this table to enable the use of the Fisher exact test.) These two categories are related to the type of budgetary changes to see if there is a relationship between the size of authority and the type of change. Table 7.4 clearly shows that all authorities who developed sophisticated budgetary procedures came from the medium and large category and none of the smaller authorities have introduced sophisticated changes.

This table illustrates one of the problems that have been encountered in this study. The raw data clearly shows a relationship, (in this case that small authorities have introduced fewer sophisticated budgetary changes than have the medium and large authorities), but the sample size is insufficient to produce a statistically significant result.

The Fisher exact probability for Table 7.4 and the more extreme outcomes was 0.12. This probability allows the interpretation that the observed association has a 1 in 7 chance of being due to sampling errors; this chance of error is considered to be too high to allow the rejection of H_0 (independent) hypothesis.

If the ratable value for each authority is considered as an indication of size, the same conclusions reached above are obtained (see Tables C.5 and C.6 of Appendix C).

As for testing the relationship between the type of authority and the introduction of budgetary changes we can consider Tables 7.5 and 7.6. First, Table 7.5 shows that the majority of county councils and London authorities have introduced changes while the majority of district councils have not. This claim is proved by the chi square which was 15.05 with 2 degrees of

Table 7.5

Breakdown of the responding authorities
according to their type in relation to the
introduction of new budgetary changes

Type of authority	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
County Councils	16	24.2	7	9.0	23	16.0
District Councils	42	63.6	70	89.8	112	77.8
London Authorities	8	12.2	1	1.2	9	6.2
Total	66	45.8	78	54.2	144	

Table 7.6

Type of budgetary changes in
relation to the type of authorities

Type of authorities	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
County Councils	1	12.5	21	24.7	22	23.7
District Councils	5	62.5	55	64.7	60	64.5
London Authorities	2	25.0	9	10.6	11	11.8
Total	8	8.6	85	91.4	93	

freedom and large enough to reject H_0 . This means that the type of authority and the introduction of new changes are not independent. This result, however, must be treated with reservation since two expected values of Table 7.5 (4.88 and 4.13) were in fact less than 5.

Table 7.6 shows the relationship between the type of authority and the type of budgetary changes. Unfortunately, neither the chi square test can be applied to this table because of small frequencies, nor the Fisher exact test because the table is not of a 2x2 structure.

Table 7.7 shows the relationship between the location of the authorities and the introduction of new changes.

Table 7.7

Region	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
English authorities	58	87.9	50	64.1	108	75.0
Welsh authorities	2	3.1	13	16.7	15	10.4
Scottish authorities	6	9.0	15	19.2	21	14.6
Total	66	45.8	78	54.2	144	

The chi square for the above table was 10.55 with 2 degrees of freedom, which is statistically significant at the 1 per cent level. Thus H_0 should be rejected. This means that there is a significant relationship between the location of the authority and the introduction of new changes. In this case more English authorities seem to develop new budgetary procedures than do the Welsh and Scottish authorities.

A possible explanation for this observation is that Welsh and Scottish authorities are smaller than their English counterparts and this table is in fact measuring the effect of size which has been discussed earlier. In

order to further evaluate this argument, the effect of size was eliminated by the generation of Tables 7.8 and 7.9 which contrasted the incidence of new budgetary changes between the English and Welsh with Scottish authorities for similar size characteristics.

Table 7.8

Small Authorities

Region	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
English authorities	12	75.0	29	59.2	41	63.1
Welsh and Scottish authorities	4	25.0	20	40.8	24	36.9
Total	16	24.6	49	75.4	65	

Table 7.9

Medium and Large Authorities

Region	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
English authorities	46	92.0	21	72.4	67	84.8
Welsh and Scottish authorities	4	8.0	8	27.6	12	15.2
Total	50	63.3	29	36.7	79	

The Fisher exact test for Table 7.8 was 0.21 which means that for small authorities there was no statistically significant association between the location of the authority and its decision to introduce new budgetary changes. However, for medium and large authorities which are presented in Table 7.9, the Fisher exact probability was 0.02 which indicates

that there was a significant relationship between location and the introduction of new budgetary changes. In this case, the data in Table 7.9 suggests that more English authorities were introducing new budgetary changes than the Welsh and Scottish counterparts.

One possible explanation might be that English authorities have more resources, in terms of money and personnel, than the Welsh and Scottish authorities.

Table 7.10 below classifies those authorities who introduced changes into authorities with sophisticated and simple changes with two regional classifications, English, and Welsh with Scottish.

Table 7.10

Type of Budgetary Changes in Relation to Region

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
English authorities	8	100.0	74	87.1	82	88.2
Welsh and Scottish authorities	-	-	11	12.9	11	11.8
Total	8	8.6	85	91.4	93	

According to the above table, none of the Welsh and Scottish authorities introduced any sophisticated changes. Nevertheless, the Fisher exact probability for the table was 0.35 which indicates the two variables are independent, that is the choice between sophisticated and simple changes was not dependent on the location of the authority.

Finally, Table 7.11 shows the action taken by each authority according to their political control in relation to the introduction of new budgetary changes.

Table 7.11

Breakdown of the responding authorities
according to their political majority in relation
to the introduction of new budgetary changes

Political majority*	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Labour	28	42.4	30	38.5	58	40.3
Conservative	17	25.8	14	17.9	31	21.5
Other parties	7	10.6	21	26.9	28	19.5
No overall majority	14	21.2	13	16.7	27	18.7
Total	66	45.8	78	54.2	144	

* from Municipal Year Book, 1976

The value of chi square obtained from the above table was 6.43 with 3 degrees of freedom. This value is below that sought for statistical significance at the 5 per cent level. We have, therefore, no grounds for rejecting the hypothesis of independence between the political factor and the decision to introduce budgetary changes. Apparently there was no association between these two variables.

7.3 PROGRAMME BUDGETING (PB) VS CORPORATE PLANNING

The attitude of local authorities toward PB and corporate planning can be easily identified by the answers to more than one question.

In general, it is safe to say that a high percentage of respondents have their doubts about the working of PB in practice. As one of them put it, "I do feel that whilst programme budgeting may be ideal as a theoretical exercise, it would not work on the ground." He went further to say: "Furthermore, its introduction would be very costly in staff time."

This feeling reflects the current views of local authorities who favour a corporate planning approach over PB as Table 7.12 clearly

indicates. The preference of corporate planning over PB, further, can be found in the answer to question (4) which was directed to authorities who have not introduced any changes. Fifty-three of those authorities (56%) have indicated their intention of introducing changes to their budgeting system, while 42 had no such intention. Thirty-seven out of the 51 responding authorities (73%) preferred corporate planning, and only 4 authorities named PB as their choice for future development (see Table 7.12). Finally, some of those authorities who agreed with the statement that the new budgetary developments are an effective means to improve the process of decision making (Table 7.19), have clearly stated that their answers are applicable only to corporate planning not to PB.

From these three points, it is obvious that the PB system is no longer under serious consideration by the majority of local authorities, while corporate planning on the other hand does seem to attract many of them.

Table 7.12

If you did not introduce any budgetary changes, and you intend to introduce any changes, will you specify what type of changes? (Q.4)

Type of Budgetary Changes	Frequency of response	%
Corporate Planning	37	67.3
Programme Budgeting (PPBS)	4	7.3
Others	14	25.4
Total	55	100.0
Total responding authorities	51	
Non-responding authorities	2	

Question 3 aims to establish the effect of the new budgetary developments, PB and corporate planning on local authorities. Only 47

authorities (33%) indicated that their budgetary systems had been affected by these developments and 97 authorities (67%) that theirs had not been affected. The reasons for this negative response from the majority of authorities are varied and are presented below in Table 7.13.

Table 7.13

The reasons mentioned by respondents about their negative response toward the new budgetary developments

Reasons Mentioned	Frequency of response	%	Weighted Frequency	%
A Shortage of skilled staff in our organisation	36	21.4	22	23.9
B The organisation is too small to adopt such systems	32	19.0	17	18.5
C The benefit from these systems does not justify the efforts and costs of developing such systems	29	17.3	14	15.2
D These systems are too difficult to implement and there are doubts about their operation in practice	25	14.9	11	11.9
E The results from the application of these systems in other organisations are not encouraging	22	13.1	10	10.9
Others	24	14.3	18	19.6
Total	168	100.0	92	100.0
Total responding authorities	92			
Non-responding authorities	5			

The above table indicates clearly that the shortage of skilled staff is a major consideration of authorities not developing PB or corporate planning. Undoubtedly, the introduction and implementation of these does require special skills. Unfortunately, many local authorities lack such skills and therefore cannot engage in a sophisticated system of budgeting such as PB. More will be said about this requirement in the next chapter.

Another main factor was that a number of authorities were too small to adopt such systems. This is certainly a major factor in deciding whether to engage in such developments because PB or corporate planning requires a large amount of resources, financial and manpower. Small authorities cannot afford such large resources.

Moreover, there were some authorities who do not believe in the value of these systems. Again, this is another indication of how some people in local government still doubt the positive contribution of these approaches toward improved allocation decisions. Still, as the table shows, there were those who thought that these approaches were too difficult to be implemented. Another group of authorities based their views on the disappointing results of other organisations in implementing these systems. Although this is a relatively small group (22), no doubt it indicates that some current local authorities are aware of current budgetary developments.

Finally, there were 24 authorities who gave other reasons. Thirteen of them considered the lack of time for consideration as their main reason. This lack of time has resulted in most of these cases from the process of re-organisation of local government. Such a process has meant staff efforts have been concentrated on the establishment of the new authority. As one of the respondents put it, "priority has been given to examination and setting up a firm foundation for the new authority". Other reasons include the concentration on short-term measures affecting annual budget, a lack of elected member's enthusiasm, the need to evaluate the effect of political decisions on the successful operation of the techniques, and finally and surprisingly, the one authority which stated their reason for not considering such developments as being that "traditional budgeting has proved adequate until now".

Note that another column in Table 7.13 was added to represent weighted frequencies (see section 6.5). It is obvious that there was not much difference between simple frequencies and weighted frequencies. However,

the new calculation has increased the importance of the first factor from 21.4% to 23.9%.

Also, from Table 7.13, it can be argued that reasons C, D and E are very much similar. Thus, if these three factors were combined to produce one set of reasons related to the disbelief in the new budgetary developments, we have the following table.

Table 7.14

Reasons mentioned	Frequency of response	%	Weighted Frequency	%
Shortage of skilled staff	36	21.4	22	23.9
Authority is too small	32	19.0	17	18.5
Reasons related to the disbelief in the new concepts	76	45.3	35	38.0
Others	24	14.3	18	19.6
Total	168	100.0	92	100.0

The table shows that 76 out of 92 authorities indicated their doubt about the new budgetary concepts in one way or another. This again demonstrates how these new approaches are still in the balance and unless a clear and strong evidence of their effectiveness is produced, many will still continue to doubt their value.

A comparison between the answers of questions 1 and 3 produced some interesting results. Of the 66 authorities who introduced new changes to budgetary systems, there were 21 in which such changes have not come as a result of the new developments in budgetary systems such as PB and corporate planning. In other words, these authorities have developed their own new procedures to improve the traditional budgetary procedures. On further analysis of the type of system they are using, we find that 9 of these 21 have adopted some elements of corporate planning.

On the other hand, although there were three authorities who

indicated that they have been affected by the new developments, they have not introduced any changes in their budgetary systems. Further, these three authorities did not specify in what way they had been affected by such developments.

To conclude this section, it is reasonable to say that these new systems of budgeting are still far from being well understood by the majority of local authorities and much more effort is needed to clarify their vagueness and to produce evidence of their value. It would therefore be very helpful to prove that the benefits from implementing them justifies the costs and efforts expended. The evaluation and assessment of these systems are discussed in Chapter 9.

7.4 LOCAL GOVERNMENT'S ORGANISATIONAL CHANGES DURING THE 1960'S

As mentioned in Chapter 5, following the publications of the Reports of the Royal Commissions on local government in 1969, and the Maud Report on the management in local government in 1967, a number of local authorities introduced some organisational changes in order to make the authority more efficient in managing its affairs.

These reports, undoubtedly had a great impact on the attitude of local authorities toward the traditional management structure and process which have been in existence since the start of this century. Matters have changed as have peoples' needs and problems. Until the start of the last decade, the response of local authorities has been negative or very slow. To be effective, a local authority needs to be in a dynamic state, that is to learn to act as quickly as possible to any changes in the environment and/or circumstances. By such dynamic approach, it should accomplish its objectives more effectively. The last decade, as it has been argued in Chapter 5, has witnessed tremendous developments in the manner in which local authorities carry out their activities. To achieve efficiency and effectiveness in the services provided has become the common aim of every

local authority.

Returning to the survey, we find that 66 authorities, or 46% of respondents, have been affected by the late 1960's developments in one way or another. Table 7.15 shows how those authorities have been affected.

Table 7.15

How did the introduction of organisational changes in local government during the 1960's affect the budgetary system in your authority?

	Frequency of Response	%
By looking in greater depth at the future implications of present decisions through long-range planning	43	22.6
By emphasising the necessity to link planning with budgeting	40	21.1
By adopting more effective and efficient means for utilising the organisation's resources	37	19.5
By introducing a new budgetary system	33	17.4
By giving more consideration to the needs of the community and the organisation's objectives	32	16.8
Others	5	2.6
	<u>190</u>	<u>100.0</u>
Total responding authorities		66

An obvious effect was the need for local authorities to consider the future implications of present decisions through long-range planning on the one hand together with the need to link planning to budgeting to make such decisions more effective. Forty-three authorities have indicated this attitude as a result of the mentioned developments. Such findings support the generally accepted view that long-range planning with budgeting has been increasingly recognised by a large number of local authorities.

It is surprising, however, to note that only 17% of responding

authorities have begun to give more consideration to the needs of the community and the authority's objectives. One can argue that such recognition has been adequately considered before the appearance of the new developments in local government. But according to the findings of some people who engaged in research on management in local government, the weakness of local government has always been attributed to the fact that local authorities have not been adequately responding to the growing and changing needs of the community. Evidence of such weakness can be found in the writings of Professor Stewart and many others as mentioned in Chapter 5.

Other effects mentioned by some respondents include, emphasising the need for greater involvement in the budgetary process by members, getting spending departments more involved and aware of the financial consequences of their actions, and better 'in depth' pre-commitment project appraisals. Before concluding this section, it should be borne in mind that a large number of authorities were newly established in 1974 and 1975. Thus, question 3 is not applicable to those authorities.

7.5 FORWARD PLANNING

It is surprising to note that a large majority of responding authorities, 104 authorities or 73% of total, do not have a unit concerned with forward planning. Only 39 authorities or 27% do have such a unit. On the other hand, almost all authorities (140 out of 144) do have separate capital and revenue budgets. This finding shows the attitude of local authorities in keeping with the traditional practice which means two types of budget, capital and revenue. One of the main features of a PB system, however, is the combination of these two budgets into one programme budget for not less than five years as in the case of the GLC. (See Appendix E).

The length of period over which local authorities engage in long-

range planning varies from one authority to another as Table 7.16 shows:

Table 7.16

Long-range planning horizon

Planning horizon	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Less than 5 years	19	35.9	10	29.4	29	33.3
5 years and over	34	64.1	24	70.6	58	66.7
Total	53	60.9	34	39.1	87	
Non-responding authorities	57					

It is clear from the above table that the majority of responding authorities (67%) are using the period of five years and over as their planning horizon. It is surprising, however, to find out that 57 authorities (40%) did not answer the question, and that out of those, 44 (77%) come from authorities who did not introduce any changes in their budgetary process. Thus, it is hard to avoid the conclusion that those authorities were not carrying out forward planning.

The chi square for Table 7.16, which shows the relationship between the length of the planning horizon and the introduction of new budgetary changes, was 0.37 with 1 degree of freedom which is not statistically significant at the 5 per cent level. Thus, the introduction of the new budgetary changes would appear to have no effect on the length of the planning horizon.

This observation was rather unexpected and did not give the support for hypothesis no. 10 (Chapter 6) as was strongly suggested in the relevant literature. Ideally, one would have expected those authorities who had introduced new budgetary changes to adopt a long-term planning horizon. As discussed in Chapters 3 and 5, a pre requisite for an effective budgetary

system is the introduction of long-term planning, without such strategy, the improvements associated with new changes will, most probably, be greatly restricted.

As for long-range planning for revenue expenditure, a large majority (70%) of respondents indicated that they do not engage in planning for several years ahead. For those authorities, long-range planning is concerned with capital expenditure only. Perhaps the main reason for such action is the difficulty of assessing the future attitude of central government concerning its contributions to local government revenue which has been increasing over the last decade (as shown in Chapter 5).

Another problem which has been mentioned by many responding authorities is that of planning for revenue expenditure with the high rate of inflation in this country.

On the other hand, 30% of the responding authorities do plan revenue expenditure on a long-term basis. The need to plan revenue expenditure for several years ahead stems from the necessity for a local authority to consider all future implications of its present decisions to produce more effective plans and programmes. As regards the planning horizon for revenue expenditure, the majority of authorities (61%) use the period of less than 5 years and only 39% plan revenue expenditure for 5 years and over. Table 7.17 below shows the distribution of responding authorities in relation to the state of budgetary reform.

Table 7.17 demonstrates an interesting point. The majority of respondents (79%) who engage in long-range planning for revenue expenditure come from authorities who had introduced changes in their budgetary systems. One might conclude that the introduction of these changes has led to the need for such planning because a single year expenditure forecast is no longer sufficient.

The Fisher exact probability of Table 7.17 was 0.39. Thus, as

Table 7.17
Planning for revenue expenditure

Planning horizon	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Less than 5 years	19	63.3	4	50.0	23	60.5
5 years and over	11	36.7	4	50.0	15	39.5
Total	30	78.9	8	21.1	38	
Non-responding authorities	5					

was reported above, there is no evidence to indicate that the introduction of new budgetary changes has affected the length of the revenue planning horizon. The points discussed earlier are pertinent to this result.

7.6 THE MONITORING PROCESS

As regards the use of the monitoring performance to evaluate and formulate long-term planning, we find that although a significant number of authorities (51) are using the monitoring process as a means for long-range planning, the majority of them (91) do not do so. This suggests that the full benefit from establishing a monitoring system has not been achieved by many authorities who still consider the aim of a monitoring system as being mainly the achievement of financial control over revenue and expenditure.

Here again if the respondents on this question are classified into two groups, authorities with budgetary changes, and authorities without budgetary changes (Table 7.18), we find that the majority of authorities (68%) who use the monitoring process for planning purposes are those authorities with budgetary changes. Thus, it is apparent that the introduction of the new budgetary procedures has led to the recognition of the monitoring process as a very important part of the planning and

budgeting processes.

To find out if there was an association between the use of the monitoring process in long-term planning and the introduction of new budgetary changes a chi square test was used. The value of the chi square for Table 7.18 was 15.34 with 1 degree of freedom which is significant at the 0.1 per cent level. Thus, there is strong evidence that there was a significant relationship between those two variables. This finding, therefore, leads to the acceptance of part of hypothesis no. 10 of Chapter 6 which predicted the existence of such an association.

Table 7.18

The use of monitoring process in long-term planning in relation to the introduction of budgetary changes

	Do you measure actual annual results for the sake of evaluating and formulating long-term plans?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Authorities with budgetary changes	34	68.0	31	33.7	65	45.8
Authorities without budgetary changes	16	32.0	61	66.3	77	54.2
Total	50	35.2	92	64.8	142	
Non-responding authorities	2					

7.7 EFFECTIVENESS OF PROGRAMME BUDGETING AND CORPORATE PLANNING

Authorities were asked to express their opinion about the effectiveness of programme budgeting and corporate planning. Their answers are incorporated in Table 7.19. As the table shows, the majority of responding authorities (65%) do believe in PB and corporate planning as effective means for improving the quality of allocation decisions. This finding is in line with the assumption adopted by most writers.

Although the number of authorities who do not believe in these systems are few (only 18), there were 32 authorities (22.4%) who did not express an opinion (don't know). This significant number shows how some authorities are still confused about the value of these approaches and their potential contribution although they have been in use for a long time in many other organisations.

Table 7.19

Effectiveness of PB and corporate planning
in relation to the introduction of new budgetary changes

	Are PB and corporate planning effective systems?							
	Yes		No		Don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Authorities with budgetary changes	51	54.8	7	38.9	8	25.0	66	46.2
Authorities without budgetary changes	42	45.2	11	61.1	24	75.0	77	53.8
Total	93	65.0	18	12.6	32	22.4	143	
Non-responding authorities			1					

The chi square for the above table was 8.97 with 2 degrees of freedom, which is significant at the 5 per cent level. Therefore, the evidence does justify the rejection of the null hypothesis. This means that there

was a relationship between the introduction of new budgetary changes and the opinion on the effectiveness of new budgetary developments.

It is appropriate to state some of the important comments on question 8. More than one respondent has mentioned the political constraints as a major obstacle to an effective budgetary system. One of them, for example, believes in the value of PB and corporate planning "provided that short-term political expedients are not permitted to disrupt forward planning". Another respondent argued that the value of such approaches "depend on the political make-up of the council". Finally, a third commentator pointed to the effect of central government in saying that "central government control impinges on the decision-making process to a large extent".

Returning back to Table 7.19, some interesting points can be illustrated here. Of those 18 authorities who do not believe in the value of new budgetary developments, 7 did in fact introduce some changes in their budgetary procedures. Four of these 7 authorities have introduced some elements of corporate planning, PB or both. Such findings indicate that the operation of these systems, or at least some elements of them, in some authorities have had disappointing results. But there are some doubts about this conclusion since there was a degree of contradiction in the answers of 2 of these authorities (who introduced some elements of corporate planning) when they were asked towards the end of the questionnaire (Q.29) about their reaction to the implementation of the new changes in their authorities. Both of them have shown their satisfaction and belief in the benefit of these changes toward improving the decision making process.

Moreover, a further analysis of the answers of authorities who said "don't know", indicates that of these 18 authorities, 8 have introduced some budgetary changes. Five of them identified these changes as some

elements of either corporate planning, PB, or both. Again three of those 5 have indicated their satisfaction about the operation of the new changes.

It is assumed however, that since such confused and contradictory answers were relatively few, they have had no major effect on the overall results.

There has been a wide variety of bases on which the responding authorities have made up their opinion to answer question 8.a. (See Appendix A). As Table 7.20 reveals, the most important source of knowledge was the published material on the subject. Eighty-three authorities said they acquired their information from the reading of relevant literature. The majority of authorities in this category are those authorities who did not have experience with either PB or corporate planning. The next group was that which relied upon the experience of their organisations. Note here that 11 authorities of the 54 have not introduced any changes in their budgetary systems.

Table 7.20
Source of knowledge of new budgetary
developments in relation to the introduction
of new budgetary changes

Source of Knowledge	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
A From reading of the relevant literature	30	23.3	53	52.0	83	35.9
B From the experience of our organisation	43	33.3	11	10.7	54	23.4
C From reading of the experience of other organisations	30	23.3	16	15.7	46	19.9
D From personal experience in other organisations	17	13.2	12	11.8	29	12.6
Others	9	6.9	10	9.8	19	8.2
Total	129	55.8	102	44.2	231	
No. of responding authorities 141						
No. of non-responding authorities 3						

Table 7.21 is presented below after classifying the sources of knowledge into two categories, practical and theoretical in addition to other sources.

Table 7.21

Source of Knowledge	Have you introduced new budgetary changes?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Practical experience (B + D)	60	46.5	23	22.6	83	35.9
Theoretical experience (A + C)	60	46.5	69	67.6	129	55.9
Others	9	7.0	10	9.8	19	8.2
Total	129	55.8	102	44.2	231	

The chi square for the above table was 14.20 with 2 degrees of freedom which is significant at the 0.1 per cent level. This means that there was a relationship between the background of the knowledge and the introduction of budgetary changes. The table indicates that practical experience is more likely to result in the introduction of new budgetary changes than theoretical experience which appears to have marginal influence. Statistically there is a difference between these two classes of experience.

Table 7.22, on the other hand, relates the source of knowledge to the opinion expressed by respondents regarding the effectiveness of PB and corporate planning.

Table 7.22

Source of Knowledge	Are PB and corporate planning effective systems?							
	Yes		No		Don't know		Total	
	No.	%	No.	%	No.	%	No.	%
Practical experience	60	37.0	6	23.1	17	39.5	83	35.9
Theoretical experience	91	56.2	18	69.2	20	46.5	129	55.9
Others	11	6.8	2	7.7	6	14.0	19	8.2
Total	162	70.1	26	11.3	43	18.6	231	

Unfortunately, neither chi square nor Fisher exact probability can be used to test data in Table 7.22. This is because the table is not a 2x2 structure and two of the expected values were in fact less than 5.

However, if the table is reduced to 2x2 by ignoring 'don't know' and 'others', the chi square test can be applied. 'Don't know' can be omitted on the ground that we are seeking to analyse positive answers, i.e. yes or no. 'Others' is eliminated to allow the comparison between practical and theoretical experience. Table 7.23 is presented according to this criterion.

Table 7.23

Source of Knowledge	Are PB and corporate planning effective systems?					
	Yes		No		Total	
	No.	%	No.	%	No.	%
Practical experience	60	39.7	6	25.0	66	37.7
Theoretical experience	91	60.3	18	75.0	109	62.3
Total	151	86.3	24	13.7	175	

The chi square for the above table was 1.91 with 1 degree of freedom which is not statistically significant at the 5 per cent level. Thus, the opinion expressed on the effectiveness of PB and corporate planning is independent of the type of experience the respondent had generated.

CHAPTER VIII
ANALYSIS OF THE QUESTIONNAIRE:
FINDINGS OF PART TWO

Part two of the questionnaire was designed to be answered by those authorities who had introduced changes, major or minor, in their traditional budgetary system. As indicated earlier, 66 authorities have introduced either major or minor changes in their budgetary systems. Of these, 6 authorities did not complete part two at all.

This and the following chapter discusses and analyses the results of part two of the questionnaire. This chapter investigates the factors affecting the introduction of budgetary changes.

8.1 THE INTRODUCTION OF THE NEW BUDGETARY PROCEDURES

Of the 66 authorities who had introduced new budgetary changes, only 2 introduced a complete PB system, (GLC and Gloucestershire). This, no doubt, reveals the fact that a PB system is still too difficult to be considered by the majority of local authorities. Almost all authorities agree on the conclusion that PB is too complicated and that a less sophisticated approach, such as corporate planning, has a better chance of success in improving the budgetary process.

As Table 7.2 indicated, the majority of responding authorities have introduced some elements of corporate planning. There were also some which adopted various elements of PB. The fact is, however, that only a few were engaged in an integrated system of either PB or corporate planning. It seems that the majority preferred to try elements of either system instead of taking the risk of implementing a complete system. The risks here refer to the fact that a complete system of those approaches, particularly PB, would be too costly in terms of resources and time consumption, to introduce and implement with the uncertainty of future

success.⁽¹⁾

Nonetheless, such a risk has been taken by a few authorities. Although these authorities are small in number, only 8, they can be seen as a good example of how a PB or corporate planning system is working in practice and the problems facing those authorities in implementing the system.

This section is divided into 7 sub-sections:

- (a) reasons for new changes;
- (b) initiative's sources;
- (c) training schemes;
- (d) year of introduction;
- (e) organisational changes;
- (f) accounting and auditing changes; and
- (g) basic requirements.

8.1.1 REASONS FOR NEW CHANGES

Authorities who introduced new budgetary changes were asked to indicate the reasons behind their actions. The various reasons are presented in Table 8.1 below.

(1) A GLC official has claimed that the introduction of the PPBS to the authority has cost around £2m.

Table 8.1

Reasons for introducing new budgetary changes	Frequency of response	%	Weighted Frequency	%
Because it is more effective in allocating scarce resources to satisfy growing community needs.	54	57.4	41	68.3
Because of changes in top management	17	18.1	7	11.7
Because of the introduction of organisational changes in local government during the 1960's	7	7.5	2	3.3
Because of changes in the majority political party	2	2.1	1	1.7
Because it has been introduced in other public organisations	2	2.1	1	1.7
Others	12	12.8	8	13.3
Total	94	100.0	60	100.0
Total responding authorities	60			
Non-responding authorities	6			

As the above table shows, the majority of respondents (57%) indicates that they introduced the new budgetary changes because they were a more effective and efficient means for allocating their limited resources with the growing needs of the local community. This finding is in line with the conclusion reached by almost all writers on the subject who argue that the traditional budgetary approach is no longer sufficient for effective resource allocation.

Some way behind this primary factor, there was the element of changes in top management. Seventeen authorities have mentioned this as the main impetus to the new budgetary changes. New blood in top management usually brings with it new ideas and changes to improve the existing management techniques. Many local authorities have experienced a new team of managers who wanted to introduce modern management techniques to local government in order to provide a better service to fulfil public needs.

Such a management task has become increasingly difficult due to the shortage of resources available to local authorities and the pressure from both the public and central government to provide better services. It is hoped that more talented people could be found to work for local government to improve its performance and to obtain the value for money by adopting modern management techniques which have been very successful in the private sector. Unfortunately, local authorities, as one official stated, lack the motivation required to attract such skills. The fact is that the country does not lack these skills, but they need some kind of motivation in order to work in local government.

Also, the political constraints in local government could be a major snag in attempting to develop new management approaches. Nonetheless, the elected members are coming to realise the need for changes in the manner by which local authorities allocate resources. Indeed, some of

the responding authorities mentioned the elected members as the source of initiative to introduce budgetary changes (see next section).

Other reasons mentioned include, local government "nil growth" situation; the need to keep the rates down; the distrust of the old system; to identify areas of essential and non-essential growth; the pressure on public expenditure; the fact that too many decisions are made in isolation without reference to the cumulative effect on resources; local government re-organisation in 1974; and finally the Bains Report.

8.1.2 INITIATIVE'S SOURCES

As with any new proposal, the introduction of the new budgetary procedures have to be suggested by a particular individual, a group of individuals or a department in the organisation. It is no surprise to find that the majority of respondents (57.), as Table 8.2 shows, have named the Treasurer's Department as the source of the initiative. (Indeed, the treasury staff are those who know most about the business of resource allocation and they can easily spot and identify any deficiency in the system since they are responsible for preparing estimates and translating the plans into financial figures).

It seems that the majority of the treasurers in local authorities are no longer satisfied with the traditional budgetary procedures and consequently they have attempted to improve such processes by suggesting the development of new ideas and techniques aiming at better allocation decisions.

Table 8.2

Initiative's Source	Frequency of response	%
The treasury department	47	57.3
The chief executive	17	20.8
The elected members	12	14.6
Others	6	7.3
Total	82	100.0
Total responding authorities	59	
Non-responding authorities	7	

Note that in some authorities, the initiative came from more than one source, e.g. the chief executive and the treasury. In others, the idea came from the management team of chief officers. In some cases, the idea came from a particular committee, e.g. the finance committee.

8.1.3 TRAINING SCHEMES AND EMPLOYMENT OF OUTSIDE CONSULTANCY FIRMS

As the introduction of a sophisticated system, such as programme budgeting, requires special skills which most local authorities lack, a few authorities sought the help of consultants. The city of Liverpool is a good example. (Liverpool regretted they could not answer the questionnaire). As indicated in Chapter 5, the recommendations of the McKinsy Report for Liverpool were unworkable in practice. The value of that report, as seen by the local authorities, was its good identification, presentation and analysis of the local authority problems and needs. The report did not succeed in offering an effective solution.

Question 18 of the questionnaire was intended to establish how many authorities followed Liverpool's approach. Surprisingly, all responding authorities stated that they had not employed an outside firm - even those authorities who adopted a complete system of PB or corporate planning. Perhaps one of the main reasons for this was the high fees that consultancy firms require which many authorities may have decided they could not afford.

Those authorities prefer to use such large amounts of money in improving existing services or creating new ones.

Thus, it is safe to assume that local authorities tended to utilise their own staff to develop and introduce the new budgetary procedures. In many cases, however, some training programmes were established to inform the staff about the objectives of the new procedures and its operating instructions.

The majority of the responding authorities, 33 (60%), indicated that they had introduced some kind of training programme to help implement the new changes. Table 8.3 is presented below to illustrate the perceived need for training with reference to the class of budgetary changes that the responding authority had introduced.

Table 8.3

Introduction of training schemes in
relation to the type of budgetary changes

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Authorities with training schemes	7	87.5	43	61.4	50	64.1
Authorities without training schemes	1	12.5	27	38.6	28	35.9
Total	8	10.3	70	89.7	78	
Total responding authorities	55					
Non-responding authorities	11					

The Fisher exact probability of the above table and the more extreme outcomes was 0.14. Therefore, this study did not provide convincing evidence to support the argument that the introduction of training schemes was associated with the level of budgetary changes. There is a 1 in 6 chance that the inferred association is due solely to sampling error.

Although the table strongly suggests that authorities who introduced sophisticated changes thought it more necessary to utilise training schemes than did those who only introduced simple changes.

The various training programmes developed by the responding authorities are presented below in Table 8.4.

Table 8.4

Type of Training Scheme	Frequency of Response	%	Weighted Frequency	%
A. Distributing printed material to explain the aims of the system and its operation	25	32.4	11	33.3
B. Holding regular meetings with the staff to explain the aims of the new system and its method of operation	24	31.2	11	33.3
C. Sending staff to attend short courses in academic institutions	13	16.9	5	15.1
D. Inviting expert(s) from outside to give seminars to the staff	8	10.4	2	6.1
E. Operating a short training course in the organisation	5	6.5	2	6.1
Others	2	2.6	2	6.1
Total	77	100.0	33	100.0
Responding authorities	33			
Non-responding authorities	-			

From Table 8.4, it is clear that the majority of local authorities tended to adopt simple rather than sophisticated training programmes. This is more clear from Table 8.5. The table classifies the training schemes into two categories, simple and sophisticated. A, B and others were combined to represent simple schemes, C, D and E were combined to indicate sophisticated schemes.

Table 8.5

Type of training scheme	Frequency of Response	%	Weighted Frequency	%
Simple schemes	51	66.2	24	72.7
Sophisticated schemes	26	33.8	9	27.3
Total	77	100.0	33	100.0

To relate the type of training schemes to the type of budgetary procedures adopted, Table 8.6 is presented below.

Table 8.6

Type of training schemes in relation
to type of budgetary changes

Type of training schemes	Type of budgetary changes					
	Simple		Sophisticated		Total	
	Freq.	%	Freq.	%	Freq.	%
Simple	60	67.4	14	58.3	74	65.5
Sophisticated	29	32.6	10	41.7	39	34.5
Total	89	78.8	24	21.2	113	

The chi square for the above table was 0.70 with 1 degree of freedom which is not statistically significant at the 5 per cent level. Thus, we fail to reject H_0 , i.e., there was no association between the type of budgetary changes and the type of training programmes. Here again we do not have sufficient statistical support for the expectation that the type of training scheme depends on the type of budgetary changes, i.e. sophisticated budgetary procedures would require sophisticated training schemes to prepare the staff to implement and operate them.

As regards the value and effectiveness of the training schemes, 19 authorities, or 61% of respondents, indicated their satisfaction with the

outcome of their programmes. In order to find out the relationship between the type of training schemes and their perceived adequacy, consider Table 8.7 below.

Table 8.7

Type of training schemes and their sufficiency

Efficiency of schemes	Type of training schemes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Sufficient	3	42.9	22	56.4	25	54.3
Not sufficient	4	57.1	17	43.6	21	45.7
Total	7	115.2	39	84.8	46	
Total responding authorities	31					
Non-responding authorities	2					

The Fisher exact probability for the above data was 0.39 which is not statistically significant at the 5 per cent level. This means that H_0 should be accepted. Therefore, it may be inferred the type of training programme and its efficiency are independent from each other.

8.1.4 YEAR OF INTRODUCTION

Authorities were asked about the year when they introduced the new budgetary changes to establish when the majority began to be aware of the need to introduce changes. Their answers are presented in Table 8.8 below.

Table 8.8

Year of Introduction	No. of Authorities	%
Before 1970	8	14.3
1970 - 1973	11	19.6
1974 -	37	66.1
Total responding authorities	56	100.0
Non-responding authorities	10	

As the above table shows, only 8 authorities, or 14% of respondents, had introduced the new changes before 1970 and 11 authorities in the period 1970 - 1973. On the other hand, the majority of respondents, 37 authorities (66%) introduced the changes in 1974 or after.

One obvious conclusion could be reached; that the re-organisation of local government in 1974 has played a major part in the development of the new budgetary systems. Indeed, the evidence for this conclusion can be found in many aspects of the answers in the questionnaire. In addition to the obvious effect of the process of re-organisation, it can be said that the Bains Report published in August 1972 had had a great influence on the attitude of many local authorities.⁽²⁾

To try and determine the relationship between the year of introduction and the type of budgetary changes, Table 8.10 is presented. Note that, the three periods had to be reduced to only two to enable the use of the Fisher exact test since the chi square test cannot be used because one of the expected values is less than 5.

(2) See Chapter 5

Table 8.9
The relationship between type of
budgetary changes and their year
of introduction

Year of Introduction	Type of budgetary changes					
	Simple		Sophisticated		Total	
	Freq.	%	Freq.	%	Freq.	%
Before 1974	21	28.4	5	62.5	26	31.7
1974 and after	53	71.6	3	37.5	56	68.3
	74	90.2	8	9.8	82	

The Fisher exact probability for the above table and the more extreme outcomes was 0.06 which is just above our criterion of 5 per cent. Thus, we conclude that there was no statistically significant association between the year of introducing the new budgetary changes and their type although without using this test we may reach a different conclusion since more simple changes have been introduced in 1974 and after, while more sophisticated changes have been introduced before 1974.

This table provides evidence, admittedly not statistically significant, that is contrary to that expected from the earlier discussion. With the reorganisation and modernisation of the local authorities one would have expected that a possible outcome would have been the more frequent introduction of sophisticated budgetary changes. A possible explanation for this result is that the time period between the reorganisation of the local government and the date of the survey was too short to allow the expected changes to be carried out.

8.1.5 ORGANISATIONAL CHANGES

The introduction of any new system requires adequate preparation if it is to be installed properly.- and PB or corporate planning are no

exception. Authorities were asked to consider what had been the likely changes in the organisation as a result of introducing the new budgetary changes.

As stated before, organisational changes in both the structures and procedures in local authorities started in the mid 1960's. The Reports of the Royal Commissions, Maud report and Bains report, had a great influence on such changes. Furthermore, the efforts made by some academic institutions (e.g. the Institute of Local Government at Birmingham University) have stimulated a number of changes in the management of local government through their publications and established courses. It has been recognised that organisational changes are essential in order to cope with the growing complexity of the local authority particularly if the aim is to have a better and more efficient management of the limited resources.

Referring back to the questionnaire, we find that a large number of respondents (21), 37.5% of total responding authorities, indicated that they had not introduced any changes in the organisation as a result of adopting the new budgetary procedures. Table 8.10 shows the classification of those authorities according to the type of budgetary changes.

Table 8.10

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Authorities with organisational changes	6	75.0	49	67.1	55	67.9
Authorities without organisational changes	2	25.0	24	32.9	26	32.1
Total	8	9.9	73	90.1	81	
Total responding authorities	56					
Non-responding authorities	10					

Two out of the 6 authorities (33%) who had introduced sophisticated budgetary changes, i.e. PB or corporate planning, did not introduce any organisational changes. Since the traditional organisational structure of the local authority had so many deficiencies, outlined in Chapter 5, which impaired the effectiveness of corporate planning and PB, there is one possible explanation for this result. In those two authorities, the necessary changes might have taken place before the introduction of the new budgetary procedures.

The Fisher exact probability for the data presented in Table 8.10 was 0.49 which is statistically insignificant and does not suggest that there was an association between the type of budgetary changes introduced and the organisational changes required by the local authorities. It is important to mention that some of the authorities may have considered such changes before introducing the new budgetary changes.

Table 8.11 illustrates the major types of organisational changes with frequency of response.

Table 8.11

Type of organisational changes	Frequency of Response	%
A. Establishing a central co-ordinating unit in which all departments are represented	15	33.3
B. Establishing programme boards	6	13.3
C. Establishing a separate department responsible for the operation of the system	4	8.9
Others	20	44.5
Total	45	100.0
Total responding authorities	35	
Non-responding authorities	10	

As the table shows, only 4 authorities had established a separate department for the operation of the new system. These included one authority with an integrated system of corporate planning, one authority which had introduced some elements of corporate planning, and two authorities which had introduced some elements of PB. It may be surprising to note that of the two authorities which had adopted a PB system, neither had established a separate unit for its operation.

On the other hand, central co-ordinating units in which all departments were represented was the most popular of the alternative organisational changes. The table also indicates that there were 20 authorities which had introduced changes other than those listed in the questionnaire. These included a forward planning central unit and small units in major departments; a budget section in the Treasury; a corporate planning unit; working groups with representatives from each major department; a chief officers advisory group under the Chief Executive; and a co-ordinating board with representatives from each programme board. These changes aimed to achieve a common objective, that is to implement the new procedures as efficiently and effectively as possible by co-ordinating the efforts of the various departments. Of course, each authority has to consider its own circumstances and limitations which determined the necessity for organisational changes on the one hand, and the size and time for such change on the other.

Therefore, in some cases, the introduction of the new budgetary procedures had not resulted in the establishment of new departments, units, or sections. Rather, it had led only to the employment of additional staff by the existing planning units.

Table 8.12 classifies the type of organisational changes according to the type of budgetary changes.

Table 8.12

Type of organisational changes (from Table 8.11)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	2	18.2	22	35.5	24	32.9
B	5	45.4	5	8.1	10	13.7
C	1	9.1	7	11.3	8	11.0
Others	3	27.3	28	45.1	31	42.4
Total	11	15.1	62	84.9	73	

Since the chi square test cannot be applied to Table 8.12 because of the small expected values, it must be reduced to a 2x2 table. By examining options A, B, C and others, we find out that A, B and C were concerned with establishing new separate departments or units, while other changes included the establishment of staff groups within the existing departments. Thus, Table 8.12 was re-classified according to this criterion to produce Table 8.13.

Table 8.13

Type of organisational changes	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Establishing new departments or units	8	72.7	34	54.8	42	57.5
Establishing staff groups within existing departments or units	3	27.3	28	45.2	31	42.5
Total	11	15.1	62	84.9	73	

The Fisher exact probability for the above table was 0.22 which is not sufficient evidence to reject H_0 . Thus, it is evident that there was

no significant relationship between the type of budgetary changes and the type of organisational changes. However, from the percentages in the table we can say that authorities with sophisticated changes are establishing more new departments as a result of the new budgetary changes than is the case for those who only introduced simple changes.

8.1.6 CHANGES IN THE ACCOUNTING AND AUDITING PROCEDURES

The majority of responding authorities, 34 or 59%, have said that they had introduced changes in the accounting and auditing procedures as a result of developing the new budgetary changes. There were, however, 24 authorities (41%) who did not introduce any accounting or auditing changes.

Table 8.14 shows the relationship between the type of budgetary changes and the introduction of new accounting and auditing procedures.

Table 8.14

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Authorities who introduced new accounting and auditing procedures	4	50.0	44	57.1	48	56.5
Authorities who did not	4	50.0	33	42.9	37	43.5
Total	8	9.4	77	90.6	85	
Total responding authorities	58					
Non-responding authorities	8					

As expected by visual inspection of the above table, the Fisher exact probability was high (0.49) and this confirms the observation that there was no significant association between the type of budgetary changes and the introduction of new accounting and auditing procedures.

The 34 authorities who revealed that they had introduced changes in the accounting and auditing procedures specified the various changes as presented in Table 8.15.

As the table shows, a large number of respondents, (23), or 68% of total respondents, had established a new computerised accounting system. Such action indicates, no doubt, both that the responsibilities of the local authority had increased and the need for more information resulting in the increased use of the computer. In addition, more and more authorities had realised the importance of using cost and management techniques to achieve the required efficiency. The mere reporting of the events in the traditional historical accounts was no longer considered adequate: there is a lot to be learned from the experiences of the private sector in this very important area by using more cost and management accounting techniques.

Furthermore, local authorities were becoming more aware of the usefulness of the monitoring process as a means to perform effective auditing, i.e. to see how effective the organisation has been achieving its objectives. Although the number of authorities which established such practices were still small, (14 or 44% of total), it indicates the growing wish among local authorities to benefit fully from the monitoring process and not to use it solely for the achievement of the financial control objective.

Table 8.15
Accounting and auditing changes

Type of changes	Frequency of response	%
A. Establishing a new computerised accounting system	23	30.3
B. Adopting the cost and management accounting system to achieve improved efficiency	21	27.6
C. Using effectiveness auditing, i.e. to see how effective the organisation has been in achieving its objectives	15	19.7
D. Furnishing accounting reports on the basis of programmes in addition to the traditional reports produced by departments	11	14.5
E. Using accrual accounting rather than cash accounting	4	5.3
Others	2	2.6
Total	76	100.0
Total responding authorities	34	
Non-responding authorities	-	

It is important to mention here that some of the responding authorities had introduced accounting changes but not necessarily as a direct result of introducing the new budgetary system. As they indicated in their answers, they realised such a need before introducing the new budgetary changes.

Table 8.16 illustrates the various types of accounting changes in relation to the type of budgetary system.

Table 8.16

Analysis of the various accounting and auditing changes in accordance to the type of budgetary changes

Type of accounting changes (from Table 8.15)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	2	22.2	31	31.3	33	30.5
B	2	22.2	28	28.3	30	27.8
C	2	22.2	18	18.2	20	18.5
D	3	33.4	12	12.1	15	13.9
E	-	-	7	7.1	7	6.5
Others	-	-	3	3.0	3	2.8
Total	9	8.3	99	91.7	108	

The structure of the above table makes statistical analysis difficult. Visual investigation, however, would indicate that there is little difference between the types of accounting changes within the classes of simple and sophisticated changes.

8.1.7 BASIC REQUIREMENTS

Any management system requires various basic elements to make it successful. For local authorities who introduced new budgetary procedures this would include top management support, (both officers and members); availability of skilled personnel; and availability of adequate and relevant data and information.

Table 8.17
The basic requirements for an effective
budgetary system as experienced by the
responding authorities

Basic Requirements	Frequency of Response	%	Weighted Frequency	%
A. The support of top management	43	24.9	15	26.3
B. The availability of adequate information and data	40	23.1	12	21.1
C. The ability to identify public needs and to set the organisation's objectives	33	19.1	11	19.3
D. The availability of skilled staff	30	17.3	10	17.5
E. The ability to relate inputs to outputs in a meaningful way	18	10.4	5	8.8
Others	9	5.2	4	7.0
Total	173	100.0	57	100.0
No. of responding authorities	57			
Non-responding authorities	9			

Table 8.17 illustrates the basic requirements for a successful system of budgeting in order of importance as expressed by the responding authorities. Note that 43 or 75% of the responding authorities have mentioned top management support as a major requirement for a successful budgetary system.

To relate those basic requirements to the type of budgetary procedures, Table 8.18 is presented below.

Table 8.18

Basic Requirements (from Table 8.17)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	7	22.6	55	24.2	62	24.0
B	8	25.8	50	22.0	58	22.5
C	7	22.6	41	18.1	48	18.6
D	3	9.7	37	16.3	40	15.5
E	4	12.9	21	9.3	25	9.7
Others	2	6.4	23	10.1	25	9.7
Total	31	12.0	227	88.0	258	

The main requirements mentioned above are discussed individually in the following sub-sections.

(a) TOP MANAGEMENT SUPPORT

The support of the authority's top management, officers and members, is the key element of any success in a new budgetary system, as emphasised by many of the respondents. As Table 8.17 indicates, 43 of the 57 respondents (75%) have indicated the significance of top management support.

The survey has shown that the "lack of top management support" was not a problem in local authorities with reference to the development of new budgetary procedures. Indeed, only 14 authorities, 11.7%, have stated this problem as one of their main problems facing them as they operate the new system (see section 9.1.5 in the next chapter).

Furthermore, as Table 8.19 shows, 34 authorities, 68% had described the attitude of their elected members toward the new system as positive. None of the authorities described such attitudes as negative. In fact, in 12 authorities the initiative for the new system came from the elected members and in 17 from the chief executive (see Table 8.2).

Table 8.19
The reaction of elected members toward
the new budgetary changes

Elected Members Reaction	No. of Authorities	%
Positive	34	68.0
Indifferent	10	20.0
Negative	-	-
Variable	6	12.0
Total	50	100.0
Total responding authorities	50	
Non-responding authorities	16	

Although none of the responding authorities has described the attitude of the elected members as negative, one must consider the possibility that some of the respondents might be reluctant, for a variety of reasons, to classify the attitudes of their elected members in such a manner.

(b) AVAILABILITY OF ADEQUATE AND RELEVANT INFORMATION AND DATA

As discussed in some detail in Chapter 5, the existence of accurate and relevant information is one of the main requirements for developing and implementing a PB or corporate planning system effectively and efficiently. As Table 8.17 indicates, 40 out of the 57 responding authorities, (70%) are in agreement with this assumption which is second only in importance to that of "top management support".

Moreover, elsewhere (section 9.1.5, Chapter 9) the importance of a good system of information for local authorities can be easily recognised. Table 9.7 (Chapter 9) classifies the main types of problems facing an organisation engaged in a system such as PB or corporate planning.

The table illustrates clearly that the problems of deficiencies and

Lack of adequate and relevant information was the most important of the 6 main problems. (29 authorities out of 66 (44%) had referred to it as their main problem). Similarly, developing an adequate and effective system of information and improving the accounting procedures was the first priority expressed by the respondents to solve the problems facing the local authority (see Table 9.8, Chapter 9).

From the above discussion, it is clear that the existence of adequate and relevant systems of information and data sources within the local authority was an essential pre-requisite to an effective system of budgeting.⁽³⁾ This conclusion is in line with one of the hypotheses of Chapter 6.

Table 8.20 presents the various types of information and data required by the new budgetary system as identified by the respondents.

Table 8.20

Type of Data	Frequency of Response	%
A. Financial position statements	36	26.4
B. Economic and social data	31	22.8
C. Progress reporting	27	19.9
D. Cost data	23	16.9
E. Special analytical studies including effectiveness indicators	11	8.1
Others	8	5.9
Total	136	100.0
No. of responding authorities	50	
Non-responding authorities	16	

(3) See Chapter 5.

The need to prepare position statements is being recognised by more and more local authorities as discussed in Chapter 5. The survey has confirmed this claim, Table 8.20 showing that such sources of information were the most important. Thirty-six out of 66 authorities (55%) were using position statements. Also, many authorities had realised the importance of collecting economic and social data to identify the needs and problems of the public as a step to determine the authority's objectives and priorities. Meanwhile, as the table shows, quite a number of authorities, (27), were using progress reporting as a source of information.

However, only a few authorities, 11, have used special analytical studies which are considered as a very basic element in any effective budgetary system. It seems that local government still lacks sufficient resources, human as well as financial, to conduct such essential studies. But, unless local authorities find the required skills to carry out the necessary analytical studies, discussed in Chapters 3 and 5, the effectiveness of any new budgetary development tends to be limited as the American experience has shown.

Other types of information include the following: more detail on the consequences of the revenue projections related to individual policies, statistical and financial statements, output measures, options statements, community need analysis statements, detailed allocation of staff time over activities, and standard operation forecasts for all services.

Note that Table 8.20 indicates that 16 authorities did not answer the question. Since the question did not provide the respondent with a "none" choice, it would be reasonable to suggest that such authorities did not require new data as a result of the introduction of the new budgetary changes. Table 8.21 is presented according to this assumption. However, of those 16 authorities, 6 are considered as non-responding authorities because they did not answer the whole of part two of the questionnaire.

Table 8.21
 Type of budgetary changes in relation
 to the need for new data

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
The new changes required special data and information	8	100.0	61	80.3	69	82.1
The new changes did not require special data and information	-	-	15	19.7	15	17.9
Total	8	9.50	76	90.5	84	

It is apparent from the above table that the greater majority of authorities needed special data to assist in implementing the new budgetary changes, both simple and sophisticated. In the case of sophisticated changes, all the authorities responded positively to this question.

The Fisher exact test was used to test the significance of this observation and hypothesis, that simple changes would require less special data than sophisticated changes. The exact probability of 0.19 did not provide the statistical support that was expected. The result indicates support for the hypothesis but the chance that an incorrect result is obtained due to sampling errors (1 in 5) is considered too high.

(c) THE ABILITY TO IDENTIFY PUBLIC NEEDS AND TO SET THE ORGANISATION'S OBJECTIVES

In Chapter 5, the ability to identify public needs and to set the organisation's objective was identified as the corner stone of any decision making process in local government. The survey has supported this view as can be seen from Table 8.17 where 33 out of the 57 responding authorities have stated that the ability to identify public needs and to set the

organisation's objectives is one of the basic requirements for an effective system of budgeting.

(d) AVAILABILITY OF QUALIFIED AND SKILLED PERSONNEL

The development and implementation of PB and corporate planning systems and even some elements of these systems requires skilled staff. Such skills may include economists, system analysts, cost accountants and statisticians. Unfortunately, many, if not most, local authorities and in particular the small ones, lack such qualified personnel. Such a deficiency has led, in many cases, to the decision not to introduce such systems. In fact, this reason was the predominant argument behind the decision not to consider PB or corporate planning as Table 7.4, Chapter 7, shows.

The findings of the survey have confirmed this point on more than one occasion. The shortage of skilled personnel has been one of the fundamental problems facing a local authority intending to introduce new budgetary procedures. From Table 9.7, Chapter 9, this deficiency is the second most important factor where 25 respondents considered it as one of the basic problems facing them through the development and operation of the new budgetary system.

Furthermore, Table 8.17 shows that 30 out of the 57 responding authorities considered the availability of skilled staff as one of the basic requirements for effective implementation of the new system.

When authorities were asked whether they needed special skills to operate their new budgetary changes, only 22 authorities, 40% of the total respondents, indicated a positive reply, the majority implied that they were not necessary. The simple justification for this may be that the latter already employed such skills and felt that there was no need for extra staff. Indeed, one of the respondents said, "it was felt that the Chartered Institute of Public Finance Accountants were more than capable of implementing the new system required".

To see if a relationship between the type of budgetary changes and the need to acquire new skills existed, Table 8.22 is presented below.

Table 8.22

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Authorities needed extra skills to operate the new changes	2	25.0	30	42.3	32	40.5
Authorities did not need extra skills	6	75.0	41	57.7	47	59.5
Total	8	10.1	71	89.9	79	
Total responding authorities	55					
Non-responding authorities	11					

The Fisher exact probability for the above table and the more extreme outcomes was 0.29 and does not give any statistical support to the hypothesis that there is an association between the type of budgetary changes and the requirement of extra skills to operate the new changes.

Table 8.23 presents the various types of skills required by the 33 authorities to implement the new procedures.

Table 8.23

Type of Skills	Frequency of Response	%
Cost accountants	9	21.4
Economists	7	16.7
Statisticians	7	16.7
System analysts	6	14.3
Others	13	30.9
Total	42	100.0

Other staff required included, programme and budget planners, social scientists, psychologists, computer programmers, mathematicians, programmer and budgetary control officers, and research experts.

A further analysis of Table 8.23 is presented in Table 8.24 to relate type of skills required to the type of budgetary changes.

Table 8.24

Type of Skills	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Cost accountants	2	14.3	11	11.1	13	11.6
Economists	1	7.1	9	9.1	10	8.8
Statisticians	2	14.3	8	8.1	10	8.8
System analysts	2	14.3	8	8.1	10	8.8
Others	1	7.1	22	22.2	23	20.4
None	6	42.9	41	41.4	47	41.6
Total	14	12.4	99	87.6	113	

Unfortunately, the table does not show any significant difference between the two classes of budgetary changes regarding the type of skills required. And because almost half of the expected values are less than 5, the chi square cannot be used. Furthermore, the Fisher exact test cannot be used because there is no way to combine the type of skills into two categories.

(e) THE ABILITY TO RELATE INPUTS TO OUTPUTS.

Although, theoretically, the ability to relate input to output has been recognised as one of the most important factors in a successful PB or corporate planning system, only a few respondents agreed with such an assumption. According to Table 8.17, only 18 authorities, or 31.6% of total respondents, considered this as a basic requirement. For the

classification of those 18 authorities according to the level of budgetary changes, see Table 8.18 which does show just a little difference between the type of budgetary changes concerning this requirement.

(f) OTHER REQUIREMENTS

Other requirements include: the full co-operation of the finance department; less interference from central government; additional expenditure has to be justified by cost improvement; more integration between objective setting, budgeting, accounting and monitoring; the ability to communicate with the layman; the ability of departments and professions to co-ordinate and to take a wider view; and an acceptance that there are no finite answers to output measures between the varying services but that discussing the issue raised provides better answers than treatment in isolation.

The procedures involved in implementing the new budgetary changes are discussed in the next chapter together with an evaluation of those changes and the questionnaire's conclusion.

CHAPTER IX
ANALYSIS OF THE QUESTIONNAIRE:
FINDINGS OF PART TWO (CONTINUED)

This chapter concludes the discussion of the questionnaire. It shows the procedures used by the local authorities in implementing the new budgetary procedures. The assessment and evaluation of these changes are followed, at the end of the chapter, by a conclusion of the findings of the questionnaire.

9.1 THE IMPLEMENTATION OF THE NEW BUDGETARY PROCEDURES

The procedures for implementing the new budgetary changes varied from one authority to another. The greater majority adopted components of programme budgeting or corporate planning and only a few committed themselves to the complete system.

This section is intended to discuss the actual implementation of the various procedures adopted and is thus divided into five sub-sections:

1. The main components of the new changes
2. The techniques used
3. The procedures of implementation
4. Benefit obtained
5. Problems encountered.

9.1.1 COMPONENTS OF THE NEW PROCEDURES

There is no one unique system of budgeting which can meet the needs of all local authorities, each authority must choose the procedures which fit its own specific environment and circumstances.

There were a few authorities who developed a complete system of either PB or corporate planning. Yet, the procedures varied from one

authority to another. Some, for instance, had placed the emphasis on the identification of objectives and community needs, while others stressed the importance of determining the alternative programmes to achieve a certain objective, and so on. Table 9.1 lists the various components of the new budgetary procedures as expressed by the responding authorities and ranked according to their importance.

It is apparent from the table that the formulation of the annual budget on the basis of the long-term plan had been mentioned by the largest number of authorities, 35 out of 60. This component is one of the main features of a PB or corporate planning system, i.e. a link between planning and budgeting.

On the other hand, it is surprising to find that only 21 authorities are using the monitoring process to assess the achievement of objectives and to provide feedback. It is becoming well known that the process of monitoring is essential in both the planning and control stages. Yet, as the Bains Report concludes⁽¹⁾, many, if not most, local authorities lack a reliable monitoring system. The survey has supported this conclusion previously (see Table 7.18).

(1) See Chapter 5

Table 9.1

Components of the new budgetary procedures as
expressed by the responding authorities,
according to their importance

Components	Frequency of Response	%	Weighted Frequency	%
A. The formulation of next year's detailed budget on the basis of the long-term plan	35	23.8	16	26.7
B. The determination of problems and needs of the community and the setting of major objectives of the organisation	27	18.4	9	15.0
C. The analysis and evaluation of alternative courses of action to select the possible ones to accomplish the stated objectives	26	17.7	9	15.0
D. The formulation of one integrated long-term plan for the organisation and the allocation of resources that are likely to be available in several years to come	24	16.3	8	13.3
E. The evaluation of each year's achievements (monitoring) to check whether the objectives are being accomplished and to provide feedback	21	14.3	8	13.3
Others	14	9.5	10	16.7
Total	147	100.0	60	100.0
No. of responding authorities	60			
Non-responding authorities	6			

There is not a statistically significant difference between the weighted and simple frequencies as a result of a low chi square value for the above table (2.75 with 5 degrees of freedom).

Other components include, the reconciliation of government's views with the authority's own assessment of its priorities; the prediction of trends in expenditure; the identification of policy objectives for the next three years; the earlier and deeper involvement of members; the division of

the budget between 'Base' (committed level of service) and 'Growth' (new developments); the calculation of the rate level necessary to maintain standards; the establishment of the effect of new proposals; the estimation of the effect of new proposals; the estimation of the effect of inflation each year; the consideration of the alternative methods of satisfying need; the reappraisal of existing services to see whether they are still valid in today's context; the determination of available resources in greater detail than before; and the gearing of departmental effort towards the overall planning objectives in the corporate plan.

Table 9.2 is presented to summarise the various components for each type of budgetary system and illustrates the differences between sophisticated and simple changes.

Table 9.2

Components (from Table 9.1)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	6	21.4	46	24.3	52	24.0
B	7	25.0	32	16.9	39	18.0
C	5	17.9	33	17.5	38	17.5
D	5	17.9	28	14.8	33	15.2
E	4	14.3	29	15.4	33	15.2
Others	1	3.5	21	11.1	22	10.1
Total	28	12.9	189	87.1	217	

Note from the table that for those authorities who had developed sophisticated changes, the determination of the problems and needs of the local community and the setting of major objectives was ranked as number one among the various components.

A chi square test was used to determine if the answers relating to sophisticated changes differed significantly from those to that applied

to simple changes. The value was 2.50 with 5 degrees of freedom which was not statistically significant at the 5 per cent level. The table contains 4 cells with expected frequencies less than 5 but this fact gives greater confidence to the above result.

Thus, there was no evidence to suggest that the null hypothesis should be rejected. Therefore, it is inferred that the sophisticated and simple budgetary changes do not have significantly differing objectives.

9.1.2 TECHNIQUES EMPLOYED

To implement a PB or corporate planning system effectively the use of a technique to assist in the measurement of output is inevitable in most cases. This study strongly indicated that local government did not support this view. Over half (54%) of the authorities replied that they did not use any technique to measure their output.

There were some authorities, however, who felt that there was no need to use such techniques since their budgetary changes were still in an early stage of development. Moreover, there were a few authorities who mentioned that they applied output measurement techniques to a number of limited cases. They did not indicate, however, the techniques or the situations in which they were used.

The following table classifies the respondents into two groups, those who used measurement techniques and those who did not in relation to the type of budgetary changes.

Table 9.3

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Authorities who used output measurement techniques	4	56.0	36	48.6	40	48.8
Authorities who did not	4	50.0	38	51.4	42	51.2
Total	8	9.8	74	90.2	82	
Total responding authorities	57					
Non-responding authorities	9					

The Fisher exact test for the above table was 0.61 which indicates that there is no statistical difference between the use of output measurement techniques and the level of budgetary changes.

The various techniques employed by the 26 authorities are presented in Table 9.4. As the table shows, only 7 authorities had tried the cost-benefit analysis technique. The reason for this was due mainly to the fact that social services were extremely difficult, if not impossible, to measure in money terms.

Table 9.4

Techniques used to measure output

Technique	Frequency of Response	%
Cost-benefit analysis	7	20.0
Cost-effectiveness analysis	15	42.9
Others	13	37.1
Total	35	100.0

The majority of respondents stated that the use of the techniques

shown in Table 9.4 were restricted to selected cases or areas. Thus, if cost-benefit analysis is used, it is not normally applied universally to measure the output of all the authority's services. There are two complementary explanations for this. Firstly, it must be accepted that the benefit or effectiveness of some services are very difficult to measure. Secondly, the overall use of these techniques to all services will require a great deal of resources, both monetary and human. The local authority either cannot afford these extra expenses or perceive that the cost to benefit ratio is not advantageous.

A number of local authorities, 15 in this survey, tried to overcome this problem by using cost-effectiveness analysis. With this technique there is no need to measure the expected output in money terms. The low number of authorities using cost-effectiveness techniques does not reflect well on their current attitudes to the measurement of effectiveness.

Other techniques used included comparison of unit costs, where possible, with other authorities; community analysis; achievement indicators; manpower statistics and measures of output's units; individual item reporting; cost investigation; performance review; and various statistical controls.

To relate the type of budgetary changes to the type of techniques, Table 9.5 is presented below.

Table 9.5

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Cost-benefit analysis and cost-effectiveness analysis	5	83.3	27	54.0	32	57.1
Others	1	16.7	23	46.0	24	42.9
Total	6	10.7	50	89.3	56	

The table shows that 83% of authorities who developed sophisticated systems have employed either cost-benefit analysis or cost-effectiveness analysis and only 17% have used other less effective techniques. On the other hand, those percentages for authorities with simple changes were 54% and 46% respectively. Thus, it could be said that cost-benefit analysis and cost-effectiveness analysis are used more by authorities who developed either PB or corporate planning systems than by those who introduced only simple changes. To test this claim statistically, the Fisher exact test was applied. The exact probability was 0.18 which does not give sufficient statistical support for the above claim. There is an inherent risk of a 1 in 4½ chance that the observed association is a result of sampling error.

9.1.3 PROCEDURES OF IMPLEMENTATION

The implementation procedures for the new budgetary developments and the degree of involvement in local government differed from one authority to another, depending on a variety of factors such as the size of the authority, its financial capability, the availability of qualified staff, etc.

To examine how such applications varied from theory, a number of questions were included in the questionnaire. For instance, question 13 was designed to establish whether or not the application of PB in a British context differed from that of American PPBS. All authorities who developed a PB system or only some elements of it indicated that their approach was different from that originally developed in the USA. This finding is in line with the assumption that the procedures of implementing a PB system depended on the environment and circumstances of the organisation as well as the political climate.

Since the new budgetary procedures required significant effort and resources for their development, some authorities decided to test the value

of such changes in a limited area as an initial step to establish the possibility of introducing the new system in the whole of the authority. Such practices are known as "feasibility studies".

According to the survey, only 7 authorities, or 12.3% of the total had undertaken a feasibility study in the areas of social services, libraries, and surveyors, before introducing the new system. The large majority of the respondents, thus, introduced their new budgetary procedures without conducting a feasibility study.

A further examination of the 7 authorities who had undertaken pilot studies revealed that the sample contained the two organisations who had introduced the complete system of programme budgeting but not those who had implemented the corporate planning approach. This observation could be interpreted as indicating that the local authorities were more confident about the outcome of corporate planning as a means of improving the resource allocation process but were less sure about the practical benefits of programme budgeting. In addition it must be noted that a PB system involves a greater expense and it is not unreasonable for the authority to carry out a feasibility study in order to confirm the benefits to be obtained for the extra cost.

Some authorities introduced the new changes on a gradual basis, i.e. department by department, whereas others implemented their changes across the board. The latter was the most common and accounted for 90% of the replies. Their confidence, indicated by not using a pilot study, is supported by the experience of the 5 authorities who introduced their new changes on a gradual basis in that 4 of them later extended the new procedures in all departments.

On the other hand, the implementation of the changes tended to be an evolutionary rather than a revolutionary process. 45 authorities or 82% of total respondents agreed with this, while the remainder either

considered their process as a revolutionary one or a combination of both.

Nevertheless, the period required to install the whole system depended on the time and resources devoted to it and this varied from one authority to another.

Finally, as explained earlier in section 8.1.3, local authorities tended to use their existing staff to develop and implement the new budgetary procedures. Although none of the respondents to the questionnaire reported that they had utilised external consultants, the literature cites cases where such assistance was sought.

9.1.4 BENEFITS OBTAINED

Local authorities obviously attempt to give value for money in a variety of ways. No doubt one of the important aspects behind the development of new budgetary procedures was to achieve an improvement in the allocation of resources. It is generally accepted that the traditional approach of budgeting was no longer sufficient for an effective allocation of resources. As a result, several local authorities attempted to improve their budgetary system by developing new ideas such as PB, corporate planning and other similar approaches. Of course, the benefits obtained depended upon many factors and elements and varied from one authority to another.

Table 9.6 summarises the various benefits mentioned by the responding authorities as a result of the introduction of the budgetary changes.

Table 9.6

Benefits obtained from the new budgetary changes

Benefits	Frequency of Response	%	Weighted Frequency	%
A. Leading to more efficient and effective use of resources available in the organisation	46	30.7	22	38.6
B. Emphasising long term planning and the prediction of the future implications of present decisions	40	26.7	14	24.6
C. Defining more clearly objectives sought and means for their accomplishment	28	18.7	9	15.8
D. Putting more emphasis on the input-output relationship	18	12.0	5	8.8
E. Putting more emphasis on community problems and needs	11	7.3	4	7.0
Others	7	4.6	3	5.2
Total	150	100.0	57	100.0
No. of responding authorities	57			
Non-responding authorities	9			

The above information supports the assumption that the new developments in budgeting tended to improve the allocation of available resources. Forty-six authorities (80.7%) had indicated that the introduction of the new budgetary changes had resulted in the better use of their limited resources. Furthermore, the use of such procedures resulted in an increased emphasis on long-term planning and consideration of future implications which under a traditional system of budgeting were not seriously considered.

However, it was surprising to see that only a few authorities benefited from the new changes in emphasising the importance of identifying the problems and needs of the community. It had been argued,

rightly, that in order to obtain value for money, an understanding of the community's problems and needs was necessary. Yet, we find only 11 authorities which believed in the value of the new budgetary changes in this matter.

The benefits obtained by authorities depended of course on the type of procedures adopted and therefore vary from one case to another, as demonstrated by Table 9.7.

Table 9.7
Benefits obtained in relation to
the type of budgetary changes

Benefits (from Table 9.6)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	7	25.9	60	29.8	67	29.4
B	6	22.3	54	26.9	60	26.3
C	7	25.9	34	16.9	41	18.0
D	4	14.8	27	13.4	31	13.6
E	2	7.4	15	7.5	17	7.4
Others	1	3.7	11	5.5	12	5.3
Total	27	11.8	201	88.2	228	

As stated earlier the development and implementation of a new system such as PB or corporate planning requires a great deal of cost and effort. For that reason, some authorities believed that such systems were not worthwhile. In spite of that, 52 authorities had indicated that the benefits obtained from the new developments justified the cost and effort devoted to them. Only one authority, which had developed some elements of corporate planning, had shown its dissatisfaction with the results.

To find out if there is a statistically significant relationship

between the benefits and the type of budgetary changes, the chi square test was applied to Table 9.7 bearing in mind that 4 of the expected values are less than 5. The value for that test was 1.56 with 5 degrees of freedom which is not statistically significant at the 5 per cent level. Thus, it can be said that there is no statistical evidence that there was a significant relationship between benefits obtained and type of budgetary changes. This finding is not what one would have expected, that is benefits, would depend on the level of budgetary changes.

9.1.5 PROBLEMS ENCOUNTERED

All new management systems are likely to experience a number of problems throughout their various stages of development, programme budgeting or corporate planning are no exception. Such problems, however, should not and normally do not prevent organisations from trying the new budgetary systems. This is largely because most of the problems could be overcome by a variety of methods. Nevertheless, some of the problems which face local authorities are extremely difficult to solve.

This section aims to identify the most common problems facing a local authority when it starts to develop a new budgetary system. The following table, therefore, contains the basic problems ranked according to their importance as expressed by the responding authorities.

Table 9.8

The various problems facing the local authority
when developing the new budgetary changes

Problems Mentioned	Frequency of Response	%	Weighted Frequency	%
A. The lack of adequate and relevant data	30	25.4	12	22.2
B. The difficulty of identifying the public problems and needs and setting the organisation's objectives	25	21.2	11	20.4
C. The shortage of skilled personnel	24	20.3	12	22.2
D. The lack of support from top management	12	10.2	6	11.1
E. The difficulty of applying analytical techniques to social services	11	9.3	4	7.4
Others	16	13.6	9	16.7
Total	118	100.0	54	100.0
No. of responding authorities	54			
Non-responding authorities	12			

It is apparent that the first major problems facing a local authority when developing a new budgetary system is the deficiency of its system of information and data concerning economic, social, and political aspects. After this first obstacle, comes the problems of identifying the problems and needs of the local community in order to set the necessary programmes to meet them. Another major obstacle facing local authorities is the fact that the majority of them suffer from a shortage of skilled and qualified staff to cope with the difficulties of using some of the required techniques.

It is surprising to realise that only a few authorities (11) considered the application of analytical techniques (e.g. cost-benefit

analysis) to social services as a major problem.

Needless to say, some or all of these problems can be overcome. This of course depends on the type of problem itself, the surrounding environment and the ability of the individual authority in dealing with the particular obstacle.

Only 4 authorities did not agree that such problems could be overcome, while 49 authorities (92.5%) did agree on finding the way to solve some or all the problems they might face. The possible solutions suggested by those authorities are given in Table 9.9.

Table 9.9

How do you think some or all of the mentioned problems can be overcome?

	Frequency of Response	%	Weighted Frequency	%
By developing an effective system of information and improving the accounting procedures	35	36.8	19	39.6
By benefiting from our experience of implementing the system as well as experiences of other organisations	30	31.6	14	29.2
By obtaining the support of top management	12	12.6	6	12.5
By developing training programmes	11	11.6	5	10.4
Others	7	7.4	4	8.3
Total	95	100.0	48	100.0
No. of responding authorities	48			
Non-responding authorities	1			

Here again, the importance of a sound information system was mentioned by the majority of the respondents, (35 out of 52 authorities (67%)). Also, the value of the experiences of other organisations in developing the new budgetary system as an effective way to overcome some

of the above problems, had been stated by a significant number.

On the other hand, only a few authorities had considered the value of either training programmes or the support of top management as a way of solving their problems. As Table 9.8 clearly shows the problem of "lack of top management support" had no major effect and only a few authorities considered it as one of the main obstacles facing them. Furthermore, the majority of local authorities did not consider the establishment of training schemes as an effective way to overcome their problems. This is a surprise finding because many writers believed that in order to have a sound system of PB or corporate planning, some sort of training programmes would be needed.

To establish the significance of these basic problems in relation to the type of budgetary system adopted, Table 9.10 is given below.

Table 9.10

Type of problem (from Table 9.9)	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
A	6	28.5	41	25.5	41	25.8
B	4	19.1	33	20.5	37	20.3
C	2	9.5	33	20.5	35	19.2
D	2	9.5	21	13.0	23	12.6
E	4	19.1	13	8.1	17	9.4
Others	3	14.3	20	12.4	23	12.7
Total	21	11.5	161	88.5	182	

The major difference between the problems facing authorities who introduced sophisticated or simple changes is related to the difficulties of applying analytical techniques to social services. It would appear that the authorities who introduced sophisticated changes found this factor to be of more importance than did those who introduced simple changes.

For some authorities, in particular those who considered the new procedures as an evolutionary process rather than revolutionary one, the problems resulting from operating the new procedures have led to the abandonment, modification and switching to other systems. The survey reveals that only one authority abandoned the original system, and only five authorities had switched from one type to another as a result of the problems they were facing.

On the other hand, 26 authorities (51%) had modified their original procedures as a result of their problems. This indicates that the new budgetary procedures were best introduced on an evolutionary basis. Such a process would have enabled the authorities to learn and benefit from the experience of application by knowing the requirements and obstacles and how to overcome them. This certainly would have resulted in gradual modifications to reach an improved system and to achieve better results.

In summary, it has been shown that the introduction of new budgetary changes resulted in several problems, some of which proved to be difficult to solve. The ease with which the problems were overcome depended, to a great extent, upon their type and the circumstances of the organisation. It is generally essential for any authority who is considering the development of new budgetary procedures to carefully study the likely problems that they may encounter. Therefore, the experience of those authorities who engaged in such new budgetary developments offers a number of benefits by identifying major obstacles and the effective ways to tackle them.

9.2 EVALUATION AND ASSESSMENT OF THE NEW CHANGES

In this section, an evaluation of the new budgetary procedures is presented on the basis of the actual experiences of the responding authorities. Naturally, the outcome varies from one authority to another

depending on many factors, internal as well as external. A major factor, however, is the type of system adopted combined with the extent of the authority's commitments towards such systems.

A further fact was that there were many outside influences, beyond the authority's control, that affected the development process. These might include the loss of skilled staff, a severe cut in the central government's revenue contribution, a new government policy affecting certain aspects of local government, such as re-organisation or changing of the rating system, etc.

It has been claimed that the introduction of the new budgetary developments could result in a closer link between planning and budgeting, and subsequently an improvement in the allocation decisions can be expected.

These two assumptions were tested in this study by looking at the attitude of the responding authorities towards their new developments through questions 21 and 29 (see Appendix A). Further, an assessment of the system as actually applied is provided by the respondents in their answers to question 28, bearing in mind that there were a number of authorities which had had little time to operate the new system and therefore could not make a considered judgement.

As indicated earlier (Chapter 5) the traditional budgetary system in local government suffers from a number of major deficiencies. Among these is the weak link between planning and budgeting, i.e. plans are formulated and budgets are executed in isolation.

Theoretically one of the fundamental achievements of the proposed budgetary developments such as PB or corporate planning is to produce an effective and meaningful process of planning and budgeting by creating a strong tie between them.

To prove such an assumption, local authorities were asked if their new budgetary developments were considered to be an effective way of improving the link between planning and budgeting. It was no surprise to find that a large majority of respondents, (52 out of 57 or 91.2%) believed that the new system led to a closer link between planning and budgeting. Thus, one of the basic aims of the new budgetary developments is being achieved through the adoption of a PB or corporate planning system or even in some cases by adopting only some elements of either system.

Nonetheless, there were five authorities (8.8%) who revealed that their new budgetary procedures had not resulted in an effective link between the planning and budgeting processes. Two of these introduced some elements of corporate planning, one authority some elements of PB, and two authorities some other procedures. Thus, all authorities with either a complete system of corporate planning or PB had acknowledged the effectiveness of their systems in improving the relationship between planning and budgeting. This would suggest that the more an organisation involves itself in a PB or corporate planning system the better it can achieve its objectives.

It should be mentioned that 2 of these 5 authorities stated that they had not yet achieved the predicted benefits because of the short time that the new changes had been in operation.

As regards the effectiveness of the new system, as applied by the individual authorities, it was agreed overwhelmingly that the new procedures were worth the experiment in order to improve the quality of allocation decisions. As a matter of fact, not a single authority revealed its disagreement, albeit there were some respondents who clearly pointed out that it was too early to judge. One respondent who did not answer question 29 commented "not sure that local government experience can be relevant elsewhere".

Of those authorities who answered "yes", some had reservations. For example, one respondent agreed about the effectiveness of the new system adopted "provided its difficulties are recognised, emphasis placed on the practicality of the exercise and patience accepted in developing an acceptable and meaningful process". Another respondent gave the following advice: "keep it simple" in order to achieve the maximum benefit.

Finally, a word is in order concerning the outcome of the new procedures and their assessment by the individual authorities. Table 9.11 below summarises the answers of question 28 to illustrate such assessment.

Table 9.11

Assessment of the new changes	Frequency of Response	%
Better than expected	10	17.5
As expected	42	73.7
Worse than expected	5	8.8
Total responding authorities	57	100.0
Non-responding authorities	9	

As Table 9.11 shows, a large majority of the respondents, 73.7%, were just satisfied with the outcome of their new procedures, and presumably they achieved their original expectations. There were 10 authorities who considered their accomplishments as better than expected. However, neither of the two authorities who introduced a PB system was among this group.

On the other hand, only 5 authorities indicated that they were disappointed with the outcome of their new approaches. One of the main reasons mentioned by one respondent was "expectation far too high at outset". Another respondent pointed out that the outcome was worse than expected" due to outside influences, particularly the loss of skilled staff

combined with external constraints".

To examine the assessment of the respondents in relation to the type of changes they adopted, Table 9.12 is given below.

Table 9.12
Assessment of various budgetary changes

Assessment	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Better than expected	2	25.0	12	16.0	14	16.9
As expected	5	62.5	55	73.3	60	72.3
Worse than expected	1	12.5	8	10.7	9	10.8
Total	8	9.6	75	90.4	83	

The above table clearly shows that there was no significant difference between the two groups of authorities in relation to the assessment of the new budgetary changes. To test this relationship statistically, the chi square test is used, bearing in mind that two of the expected values are in fact less than 5. The value of chi square was .48 with 2 degrees of freedom, which is not significant at the 5 per cent level. Thus, there was no evidence that there was a different evaluation between authorities who introduced sophisticated changes and those who introduced simple ones.

Finally, to conclude this section, it is appropriate to refer back to question 8 (Appendix A), which reveals the attitude of the responding authorities, in terms of the type of budgetary changes introduced, towards the new developments in budgeting in general. The classification of the answers to question 8 is presented in Table 9.13.

Table 9.13

Do you think of the new developments in public budgeting (e.g. programme budgeting (PPBS) and corporate planning as an effective means of improving the decision-making process in public organisations?

	Type of budgetary changes					
	Sophisticated		Simple		Total	
	Freq.	%	Freq.	%	Freq.	%
Yes	8	100.0	64	75.3	72	77.4
No	-	-	8	9.4	8	8.6
Don't Know	-	-	13	15.3	13	14.0
Total	8	8.6	85	91.4	93	

As the table shows, all authorities with a PB or corporate planning systems answered "yes". This positive attitude towards the new developments is very significant because it came from those with practical experience with these new developments.

On the other hand, those authorities who expressed their disagreement and doubt such approaches came from authorities who adopted some elements of either approach or some other procedures. Nevertheless, the large majority of such authorities believed in the value of such developments.

9.3 SUMMARY AND CONCLUDING REMARKS

In this and the previous three chapters, a questionnaire, which had been sent to a selected number of British local authorities, concerning the developments of new budgetary procedures was introduced and analysed in the light of some specific hypotheses.

The analysis revealed some interesting and significant points which could be very valuable to local authorities in particular and indeed to any public organisation.

The following points summarise the important findings of these chapters.

1. The traditional budgetary procedures in local government are no longer sufficient for an effective and efficient allocation of resources and improved procedures are badly needed.

2. A significant number of local authorities in Britain have introduced either minor or major changes in their budgetary procedures within the last decade. According to the survey, 45.8% of the responding authorities did reform their budgetary procedures.

3. The vast majority of authorities who had introduced budgetary changes had chosen to adopt some elements of corporate planning, only a few of which developed a complete system of PB or corporate planning. (2 and 6 authorities respectively).

4. The publication of certain government reports on local government, which has led to the introduction of organisational changes to local government in the late 1960's, has had an obvious influence on the attitude of local authorities toward the need for a change in the traditional resource allocation process. Nevertheless, the majority of local authorities who adopted new procedures, did so after 1973. Hence, it is safe to assume that the Bains Report of 1972 should be given most of the credit for such attitudes.

5. A large number of local authorities had been affected by the new budgetary developments. Of those who had not, a number of reasons were given, among them being the problem of size, the shortage of skilled staff, the practical difficulties of applying such approaches, and the reform of local government in 1974 and 1975.

6. British local authorities tended to doubt the practical value of PB and seem to prefer a corporate planning approach.

7. The importance of long-term planning for both capital and revenue expenditure has been realised by the vast majority of local authorities.

8. A significant number of respondents recognised the role of a sound monitoring process in the planning cycle in addition to its financial control purpose.

9. The application of a particular approach, e.g. corporate planning, differs in emphasis from one authority to another. The aim, however, had always been the same, that is to achieve the maximum benefits from the available resources.

10. In most cases, the initiative for changes came from the finance department. In some authorities, however, the proposed changes came from either the chief executive or the elected members.

11. PB systems as applied in British local government differs in some aspects, from the original PPB's developed in the USA.

12. Only a few authorities undertook a feasibility study in one department to test the potential value of the system for the whole authority. Most of the respondents, however, introduced the system on an across the board basis.

13. Almost all authorities considered their new budgetary process as evolutionary (learning process) rather than revolutionary.

14. The reaction of the elected members to the approach has varied from one authority to another, but in general their attitudes were mainly positive.

15. As expected, there were a number of authorities which had introduced changes in their organisational structure and in the accounting and auditing procedures in order to cope with the new budgetary system.

16. The need of training programmes to assist the implementation of the new budgetary changes had been regarded by many authorities as essential and successful.

17. The basic requirements for a sound and effective budgetary system, as stated by the respondents on the basis of their experience, include the support of top management, officers as well as elected members, the availability of skilled staff to implement the system, the availability of adequate and relevant information, the ability to identify the needs and problems of the community to set the authority's objectives, and the more effective integration of planning with budgeting.⁽²⁾

18. The use of special techniques, such as cost-benefit analysis, is still very limited in local authorities. Moreover, when it is used in some authorities it is normally restricted to limited areas.

19. It was overwhelmingly agreed that the benefit obtained from the new changes justified the costs and efforts of implementation. The main benefits achieved, as outlined by the respondents were: the more efficient and effective use of resources; emphasis on long-term planning with more consideration of future implications of present decisions; and that objectives and their means of accomplishment were more clearly defined.

20. From the development and implementation of the new changes arose a number of problems and obstacles which varied from one authority to another depending on the type of system adopted. Generally, the problems mentioned by the respondents included, the lack of adequate and relevant information; the difficulties in identifying the community's needs and problems; the shortage of skilled staff; and the lack of support from top management. According to the respondents some, but not all, of these problems could be overcome.

21. All responding authorities expressed their belief in the value of their new budgetary procedures as a means of improving the decision-making

(2) See Chapter 5

process. Moreover, they overwhelmingly agreed that their new budgetary changes have led to a better link between planning and budgeting and that is the major aim of the PB or corporate planning approach.

In conclusion, it is evident that a new budgetary approach to replace the traditional system is certainly in demand. The relevant question in this respect, is not whether or not to modify or replace the traditional approach but rather, the type and extent of the changes to be made and what preparations are necessary for a successful approach.

In the light of the questionnaire's findings, a corporate planning approach has a greater chance of success than a programme budgeting approach. Of course, the degree of success and effectiveness of such an approach depends on many factors, internal and external. A sound and careful preparation taking all factors into account and benefiting from other experiences should contribute greatly to the success of achieving the aim of more effective use of scarce resources to obtain the value for money.

CHAPTER X

SUMMARY AND CONCLUSION

This study is concerned with the role of the budget as an important device for resource allocation in central and local government.

The initial endeavour was to investigate and examine the basic theoretical background of the government's role in the national economy and the part played by the budget as a resource allocation instrument. This investigation was supported by a questionnaire survey of British local government to obtain primary information on the attitudes of local authorities toward these new budgetary developments and their approach of introducing, if any, such developments.

It is widely accepted that as government activities grow, the role of the government becomes more and more important. The evidence of such increasing importance can be seen in both developed and developing countries by examining the size of public expenditure compared to the G.N.P. in each country. Thus in the United Kingdom, for example, since the Second World War the government has become more and more powerful by taking over big industrial enterprises from the private sector.

As a result, the need to improve the traditional approach of budgeting to cope with the new government responsibility in order to obtain value for money, was recognised by many countries. The extent of budgetary reform, of course, has varied from one country to another depending on many factors. The common view for those countries who recognised such need has been the limited value of the traditional budget as a control device with its limited emphasis on the planning and management aspects of the budget which are very essential for an effective and efficient budgetary system.

Accordingly, attempts have been made to improve the state of the budgetary process in some developed countries by developing new ideas to replace the traditional approach. The most obvious developments have been performance budgeting in the 1950s and PPBS in the 1960s in the U.S.A.

According to the performance budgeting approach, the organisation should emphasise the efficiency aspects of a given resource. Within a PPB context, on the other hand, more emphasis is directed toward the output which is sought to be achieved, i.e. effectiveness. PPB also considers the efficiency aspects to achieve the two fundamental aims of an organisation, that is effectiveness and efficiency.

Obviously, a number of difficulties and obstacles could be expected from the implementation of a PPB system. A major problem has been the lack of a specific measure of performance in the government departments. The successful implementation of the system in the U.S. Department of Defence in the early 1960s suggests that this sophisticated system could improve the quality of decisions in government departments. Unfortunately, the new promising budgetary system did not achieve the same positive accomplishment in the U.S. civilian agencies. This was due to three major factors, the characteristics of the American system of government, the way in which the system was introduced, and the difficulty of applying the analytical techniques to government programmes mainly because of a shortage of skilled personnel. As a result, PPBS was officially terminated by the federal government in 1971.

Following the unsuccessful experience with PPBS, several government departments started to look for less sophisticated approaches to improve their budgetary processes which could suit their own special circumstances and capabilities. Among those attempts which showed some promising results were management by objectives (MBO) and zero-base budgeting.

As for British local government, a literature review together with an

empirical investigation was carried out to study the new budgetary changes in local authorities.

The British local authority is in a difficult position because it is under pressure from two directions, the central government and the local community. The central government has been, in recent years, the main source of funds for the local authorities. Indeed, for the past few years its contribution to local government expenditure has reached over 60% of total expenditure. This contribution can be increased or decreased according to the policy of the central government. Thus if Whitehall decides to decrease its share in local government expenditure, as in fact did happen last year (1976/77), the local authority has either to raise its own rates or reduce its services to the community. The decision to choose between these two alternatives is very difficult indeed.

Although the central government has no legal power to stop the local authority from increasing its current expenditure because the latter can raise its rates to whatever level it desires⁽¹⁾, it can exhort the local authority to control its expenditure through, for example, cash limit control. Also, the central government does have the power to control capital expenditure.

Although local authorities have the power to increase the rates, many are usually reluctant to do so because of a variety of reasons, among these is the political consideration.

Thus the local authority, who is always under pressure to provide a better service for the community, has to seek ways in which to improve its efficiency and effectiveness. One obvious and significant area of improvement is the budgetary process through which the resources are allocated.

(1) As a matter of fact the GLC trebled their rates from 5.81p to 16.2p from 1973/74 to 1975/76

Therefore, attempts have been made to improve the budgetary system in some local authorities. The approach of course varied from one authority to another, but the aim has been always the same; to have more effective budgetary procedures. Such efforts include major as well as minor changes to the existing budgetary process.

It is generally accepted that for administrative purposes, such as controlling expenditure, statistical evidence and calculating the appropriate rates, the traditional budget has been sufficient. For allocation decisions, however, it is not an effective tool. Thus, it is not wise to abolish the traditional budget completely, rather much of it should be retained for administrative purposes.

It is well known that a basic deficiency in the financial system in local authorities is the missing link between budgeting and planning. Traditionally, more emphasis has been placed on the control aspects with little attention to the financial planning aspects. At the present time more and more concern is being given to this essential process. However, in some cases such attention has been over emphasised at the expense of performing the necessary financial control. Therefore, each of these functions should be performed with the maximum coordination between the people concerned.

For that reason it has been suggested that the department of finance might be divided into two major units both of which would be under the director of the department. The first would be responsible for the traditional accountability and control function. The second unit would be responsible for collecting, organising, analysing and presenting the relevant and required financial information and data which would include various financial plans to assist both officers and members in making their decisions. Of course these two units should work closely together and be in coordination and harmony under the guidance and supervision of the

director of finance. By establishing these two separate but closely related units, the two essential functions would be carried out on an equal basis.

Another very important aspect, and an area where the local government is still relatively weak, is the monitoring process. The local authority needs to monitor performance against a specific goal but the absence of defined long-term objectives make such a function difficult to perform. One of the main reasons for that is the nature of the local authority where the policy makers are the members who are elected by the local people. Politicians are usually reluctant to commit themselves to long-term objectives for obvious reasons. They have to respond to different groupings of local power interests. Obviously, the more powerful group will tend to get better services than the less powerful lobby.

Programme budgeting and corporate planning as applied by local government introduces several new problems associated with the system as a whole. These, which are common to any organisation that implements such a system, are often compounded by the problems resulting from the nature and structure of local government in this country.

The problems related to these type of approaches include the need to measure output and to relate it to input, with consideration of all the possible courses of action, which requires some advanced analytical techniques. This important feature of a PB system and to a lesser extent a corporate planning approach is very difficult to carry out due to the normal shortage of skills in government agencies on one hand, and the considerable difficulty in measuring services output in these agencies. Moreover, these management systems require the identification of the organisation's long-term aims and objectives. In a government organisation it is usually very difficult to identify its objectives specifically and on a long-term basis because of the nature of government activities and the effect of political constraints.

In addition to those difficulties mentioned above and which are universally encountered throughout the world the nature and the administrative system of the British local authority produces more specific problems which reduce the effectiveness of the new budgetary procedures such as programme budgeting and corporate planning.

The existence of dualism in the power hierarchy of the local authority, members and officers, has resulted in some problems in the local authorities. For instance, departmental officers are partly responsible to the Chief Executive but also to the members as well. Such sharing of responsibilities might create some confrontation and affect the quality of work. Moreover, as mentioned earlier, members as politicians are usually reluctant to commit themselves to long-term objectives which are very essential for planning and monitoring the affairs of the authority.

Furthermore, local authorities lack the required motivation which is necessary to attract talented and qualified personnel to work in local government. Such skills are needed to carry the responsibilities of taking the initiative and making sensitive and difficult decisions. The local authority needs the sort of people who are prepared and able to deal with the politicians, who in fact have the final word in directing the affairs of the authority and in many cases are composed of so many different views and beliefs. This political power could change from time to time and associated with it will be the inevitable policy changes. The changing of political control from, for example, Labour to Conservative might bring with it dramatic changes in the policies which are already being carried out by the officers.

It is appropriate to mention here that external assistance in the form of consultancy firms are usually ineffective because people from outside local government are not familiar with its nature and environment. Thus, their contributions have been in most cases of limited importance.

A good example was the case of the City of Liverpool which sought the advice of a consultancy firm but the recommendations were found to be unworkable.

Another limitation in the local government system is the fact that the local authority is set up to achieve specific goals. As one local government official commented, "the local authority is not constructed as a thinking organisation but as a doing organisation". This non-thinking character must be recognised in order to evaluate the extent of power and activities that authorities exercise. The issue of grammar and comprehensive schools might be given here to illustrate the limited power of the local authority. Several local authorities which are controlled by the Conservatives still insist on providing the local communities with grammar schools. Since the Labour Government's policy is to replace all grammar schools by comprehensives the Secretary of Education has instructed all those authorities with grammar schools to replace them within a specific period of time. Local authorities have to carry out such instructions and have no power to refuse them. They are trying to delay the implementation as long as possible in the hope that a change in the government, to the conservative party, will lead to a change in the legislation.

The questionnaire completed by respondents included interesting and valuable information on the budgetary development in local government. The questionnaire was sent to 50% of the total local authority population (521), however, the rate of response was 55% or about 28% of total population.

The majority of respondents, 78 (54%), did not introduce any changes to their budgetary procedures for a variety of reasons such as the size of the authority is too small, satisfaction with the traditional approach, lack of time since the reorganisation of local government, and the shortage of qualified personnel to implement the new budgetary procedures.

The survey also revealed that there was a statistically significant

difference between English authorities and Scottish and Welsh authorities concerning the introduction of new budgetary changes, that is to say more English authorities introduced new budgetary changes than the rest. This might be due to the possibility that resources, in terms of money and staff, are more in English authorities than in Scottish and Welsh authorities.

Furthermore, the size of an authority has a considerable effect on the decision whether to introduce new budgetary changes. The survey has supported this view statistically where there was a significant relationship between the size of the authority and the introduction of new budgetary procedures. The majority of authorities who developed new changes came from large and medium sized authorities and few were in fact small authorities.

As for the effect of the political control on the introduction of new changes, the survey revealed that there was no statistically significant relationship between the nature of the political power in office, e.g. Conservative, Labour etc., and the introduction of the new budgetary procedures in the organisation.

66 (46%) of the respondents introduced either minor or major changes to their budgetary procedures. The vast majority, however, introduced only minor changes, i.e. some elements of either corporate planning or programme budgeting and other minor changes. There were only 7 authorities who introduced major changes, that is a complete system of corporate planning or a complete system of PB. Such a small sample, no doubt, reduced the value of the information presented in the analysis of the questionnaire. Thus, it is safe to assume that more conclusive results could have been obtained if the number of authorities who introduced major changes was greater.

Nevertheless, it should be borne in mind that even if all the British local authorities participated in the survey, the number of authorities who

introduced major changes still could be small. This conclusion was reached on the basis of the knowledge obtained from the review of the relevant literature.

It is important to mention that the majority of those authorities who did not introduce any changes indicated their intention, if they get the opportunity, to develop corporate planning and only a few mentioned programme budgeting as a possible future development. Further, some of the respondents who agreed on the effectiveness of the new budgetary developments restricted their answers to corporate planning and not PB. Such findings indicate, no doubt, the cautious attitude of local authorities toward programme budgeting and their strong faith in corporate planning as an effective approach for better resource allocation.

In order to have a successful budgetary system, certain requirements should be met. Those mentioned by the responding authorities as basic requirements included the support of top management, officers and members, the availability of skilled staff to implement the system, the availability of adequate and relevant information, the ability to identify the needs and problems of the community, and the more effective integration of planning with budgeting.

As expected, the respondents have mentioned a number of problems which arose from the implementation of the new budgetary changes. The basic ones included the difficulty in identifying the community's needs and problems, the shortage in qualified personnel, and the lack of relevant information and data. Although one or more of such problems existed in all authorities, all respondents expressed their belief in their new budgetary procedures as a means of improving the quality of allocation decisions.

Experience suggests that the installation of a new budgetary system is neither impossible nor easy and there will be a better chance of success if the likely problems are identified and analysed in order to find possible

ways and means to overcome them on a continuous and systematic basis.

It is hoped that the information obtained from the questionnaire and from the review of the literature in this study would expedite future attempts to develop new budgetary ideas.

APPENDICES

APPENDIX A

The Questionnaire and the Covering Letter



THE UNIVERSITY OF ASTON MANAGEMENT CENTRE

Maple House, 158 Corporation Street, Birmingham B4 6TE
Telephone: 021.359 3611 Ex 6107

EW Davis
Lloyds Bank Professor of Business Finance
Head of Finance and Accounting Group

MC/EWD/JED

I am writing to ask for your help on a research project which is currently in progress at the University of Aston Management Centre. My colleague Mr Bait-el-Mal and myself are engaged on research into changes in planning procedures employed by local authorities in Britain. In particular we are interested in the adoption of programme budgeting (PPBS) and/or corporate planning techniques by various authorities in the past few years. We realise however that only a few authorities have used such techniques and in the same way have only done so to a limited extent.

We have constructed a questionnaire which we think will enable us to obtain the information we want. I appreciate that you and your colleagues are busy men and that in today's circumstances resources available to you are severely constrained. It would however be of tremendous help to us and, I feel, to society's appreciation of the value of some of these systems to the public sector if you are able to fill in the enclosed questionnaire. Could you please therefore return the questionnaire even if you are unable to complete part of it. If you feel that you would prefer to discuss the issue involved in person then we may well be able to arrange to visit you.

Any publications on this subject and financial matters in general which you have and think may be useful we would be pleased to receive.

Yours sincerely

Edward W Davis

Enc

Telex 336997



THE UNIVERSITY OF ASTON MANAGEMENT CENTRE

PROGRAMME BUDGETING AND CORPORATE PLANNING IN LOCAL AUTHORITIES

PART ONE

TO BE COMPLETED BY ALL AUTHORITIES

Please tick appropriate box(s)

1. Have you introduced any changes in the traditional budgetary system in your organisation?

Yes

No

If Yes, what kind of changes?

An integrated system of corporate planning

An integrated system of programme budgeting (PPBS)

Some elements of corporate planning

Some elements of programme budgeting (PPBS)

Others (please state)

2. Has the introduction of organisational changes in local government during the 1960s affected the budgetary system in your organisation?

Yes

No

If Yes, how?

By introducing a new budgetary system

By looking, in greater depth, at the future implications of present decisions through long-range planning.

By emphasising the necessity of linking planning with budgeting

By adopting more effective and efficient means for utilising the organisation's resources

By giving more consideration to the needs of the Community and the organisation's objectives

Others (please state)

3. Has your budgetary system been affected by the new developments in public budgeting (eg programme budgeting (PPBS) and corporate planning) or is it still a traditional one?

Yes, it has been affected

No, it has not been affected

If No, why?

Because our organisation is too small to adopt such systems

Because of the shortage of skilled staff in our organisation

Because the benefit from these systems does not justify the efforts and costs of developing such systems

Because these systems are too difficult to be implemented and there are doubts about their operation in practice

Because the results from the application of these systems in other organisations are not encouraging

Others (please state)

4. If the answer to question (3) is No, do you intend to introduce any developments in the future?

Yes

No

If the above answer is Yes, what type of development?

Programme budgeting (PPBS)

Corporate planning

Others (please state)

5. a. Do you have a separate forward planning unit in your organisation?

Yes

No

- b. What is the maximum length of the period over which you engage in long-range planning?

- c. Do you have a separate capital budget and revenue budget?

Yes

No

6. Do you plan long-range revenue expenditures for several years ahead?

Yes

No

If Yes, for how long? _____

7. Do you measure actual annual results for the sake of evaluating and formulating long-term plans?

Yes

No

8. a. Do you think of the new developments in public budgeting (eg programme budgeting (PPBS) and corporate planning) as an effective means of improving the decision-making process in public organisations?

Yes

No

Don't know

b. On what basis did you establish your opinion in answering question 8.a?

From the experience of our organisation

From personal experience in other organisations

From knowledge of experience of other organisations who have implemented such systems

From the reading of the relevant literature

Others (please state)

PART TWO

TO BE COMPLETED BY AUTHORITIES WHO HAVE
INTRODUCED CHANGES IN THE BUDGETARY SYSTEM

Please tick appropriate box(s)

9. What are the main components of the present system?

- The determination of problems and needs of the community and the setting of major objectives of the organisation
- The analysis and evaluation of alternative courses of action to select the best possible ones to accomplish the stated objectives
- The formulation of one integrated long-term plan for the organisation and the allocation of resources that are likely to be available in several years to come
- The formulation of next year's detailed budget on the basis of the long-term plan
- The evaluation of each year's achievements (monitoring) to check whether the objectives are being accomplished and to provide feedback
- Others (please state)

10. a. When did you introduce the new system?

19____ (Year)

b. How long, from your experience, does it take to develop a complete system such as yours?

____ (Months)

11. Why did you introduce such a system?

- Because it is more effective and efficient in allocating scarce resources to satisfy growing community needs
- Because it has been introduced in other public organisations
- Because of the introduction of organisational changes in local government during the 1960s
- Because of changes in the majority political party
- Because of changes in top management
- Others (please state)

12. From where did the initiative come?

- The elected members
 The chief executive
 The treasury department
 Others (please state)

13. If you have adopted a programme budgeting approach, did you make any modification to the original system of PPBS developed in the USA?

- Yes
 No

14. a. Was the new system introduced in all operations and services departments, ie across-the-board, or gradually in some departments to be extended over a period of years?

- Across-the-board
 Gradually

b. If it was introduced in some departments, has it been extended to all departments by now?

- Yes
 No

15. In which areas does the new system seem to work easily?

- | | |
|--|--|
| <input type="checkbox"/> Education | <input type="checkbox"/> Health |
| <input type="checkbox"/> Housing | <input type="checkbox"/> Transportation |
| <input type="checkbox"/> Social Services | <input type="checkbox"/> Public protection |
| <input type="checkbox"/> Others (please state) | |

16. How would you describe the reaction of the elected members to the new system?

- Positive
 Indifferent
 Negative

17. Before introducing the system:

a. What changes in the organisational structure did you make?

- Establishing a separate department responsible for the operation of the system
- Establishing a central coordinating unit in which all departments were represented
- Establishing programme boards
- Others (please state)
- None

b. What specialised staff did you need?

- Economist(s)
- Cost accountant(s)
- Systems analyst(s)
- Statistician(s)
- Others (please state)
- None

c. Did you undertake a feasibility study?

- Yes
- No

If Yes, in which department and for how long?

_____ (Dept) _____ (Months)

d. Did you introduce any training schemes?

- Yes
- No

If Yes, what did they include?

- Holding regular meetings with the staff to explain the aims of the new system and its method of operation

(continued)

17. d. (continued)

- Distributing printed material to explain the aims of the system and its operation
- Inviting expert(s) from outside to give seminars to the staff
- Operating a short training course in the organisation
- Sending staff to attend short courses in academic institutions
- Others (please state)

e. Do you think such schemes were sufficient?

- Yes
- No

18. For the introduction and operation of the new system, have you employed an outside consultancy firm?

- Yes
- No

19. What type of information and data are required by the new system which were not previously needed?

- Cost data
- Economic and social data
- Financial position statements
- Special analytic studies including effectiveness indicators
- Progress reporting
- Others (please state)

20. Have you introduced any changes in the accounting and auditing procedures as a result of the introduction of the new system?

- Yes
- No
- If Yes, what changes?
 - Adopting the cost and management accounting system to achieve improved efficiency
 - Using effectiveness auditing, i.e. to see how effective the organisation has been in achieving its objectives

(continued)

20. (continued)

- Using accrual accounting rather than cash accounting
- Establishing a new computerised accounting system
- Furnishing accounting reports on the basis of programmes in addition to the traditional reports produced by departments
- Others (please state)

21. Do you think that the introduction of the new system in your organisation has resulted in a closer link between planning and budgeting?

- Yes
- No

22. Has the introduction of the new system in your organisation been a revolutionary process or an evolutionary process?

- Revolutionary
- Evolutionary

23. Which technique(s) are you using to measure the output of the authority's services?

- Cost-benefit analysis
- Cost-effectiveness analysis
- Others (please state)

None

24. From your experience with the new system:

a. What are the major problems that you have been faced with in the implementation of the new system?

- The lack of support from top management
- The lack of support from elected members
- The shortage of skilled personnel

(continued)

24. a. (continued)

- The lack of adequate and relevant data
- The difficulty of applying analytical techniques to social services
- The difficulty of identifying the public problems and needs and setting the organisation's objectives
- Others (please state)

b. Do you think some or all of these problems can be overcome?

- Yes
- No
- If Yes, how?
 - By obtaining the support of top management
 - By developing training programmes
 - By developing an effective system of information and improving the accounting procedures
 - By benefiting from our experiences of implementing the system as well as experiences of other organisations
 - Others (please state)

25. Have some or all of the problems mentioned in question 24 led to:

a. Abandonment of the system?

- Yes
- No

b. Modification of the system?

- Yes
- No

c. Examination of/switching to an alternative budgetary system?

- Yes
- No

26. a. What are the main benefits obtained so far from the introduction of the system?

- Putting more emphasis on community problems and needs
- Defining more clearly objectives sought and means for their accomplishment
- Emphasising long-term planning and the prediction of the future implications of present decisions
- Leading to more efficient and effective use of resources available in the organisation
- Putting more emphasis on the input-output relationship
- Others (please state)

b. Do you consider that the benefits obtained justify the efforts and the costs of implementing the system?

- Yes
- No

27. From your experience, what are the basic requirements which are needed to make the system an effective one?

- The support of top management
- The availability of skilled staff
- The availability of adequate information and data
- The ability to relate inputs to outputs in a meaningful way
- The ability to identify public needs and to set the organisation objectives
- Others (please state)

28. What is your assessment of the current state of the system in your organisation?

- Better than expected
- As expected
- Worse than expected

29. In your opinion and as a result of the implementation of the new system in your organisation, do you consider it worth while to introduce the new system in a public organisation in order to improve the decision-making process?

- Yes
- No

APPENDIX B

Names of the Local Authorities Included
in the Random Sample which Represents
50% of Total Local Authorities in Great Britain*

A. English Metropolitan Counties:

A.1. Greater Manchester

*A.3. West Midlands

A.2. Merseyside

B. English Metropolitan Districts:

B.1. Birmingham

*B.10. Manchester

*B.2. Bolton

B.11. Rotherham

*B.3. Bury

B.12. Salford

B.4. Calderdale

*B.13. Sefton

*B.5. Coventry

B.14. Sheffield

*B.6. Doncaster

*B.15. Sunderland

B.7. Gateshead

*B.16. Tameside

B.8. Kirkless

B.17. Wakefield

*B.9. Knowsley

*B.18. Wigan

C. English Non-Metropolitan Counties:

*C.1. Avon

C.8. East Sussex

*C.2. Bedfordshire

*C.9. Gloucestershire

*C.3. Cambridgeshire

*C.10. Hereford and Worcester

*C.4. Cornwall

C.11. Hertfordshire

C.5. Cumbria

*C.12. Humberside

C.6. Derbyshire

*C.13. Kent

*C.7. Devon

C.14. Lancashire

*(Authorities which have responded
 are prefixed by a *)

(continued)

C. English Non-Metropolitan Counties: (continued)

- | | |
|------------------------|------------------|
| *C.15. Leicestershire | *C.18. Salop |
| *C.16. Norfolk | *C.19. Suffolk |
| *C.17. Nottinghamshire | *C.20. Wiltshire |

D. English Non-Metropolitan Districts:

- | | |
|-----------------------|---------------------------|
| D.1. Ashfield | *D.24. Dartford |
| D.2. Basildon | *D.25. Derby |
| D.3. Bath City | *D.26. Dover |
| *D.4. Blackpool | *D.27. Eastbourne |
| *D.5. Boothferry | *D.28. East Devon |
| *D.6. Boston | D.29. East Hampshire |
| D.7. Bridgnorth | *D.30. East Herefordshire |
| *D.8. Brighton | *D.31. East Lindsey |
| *D.9. Bristol City | *D.32. East Staffordshire |
| *D.10. Burnley | D.33. Eden |
| *D.11. Cambridge City | *D.34. Elmbridge |
| *D.12. Cannock Chase | *D.35. Exeter City |
| D.13. Carlisle City | D.36. Fenland |
| D.14. Castle Point | *D.37. Forest Heath |
| D.15. Cheltenham | *D.38. Fylde |
| *D.16. Chester City | D.39. Glanford |
| D.17. Chesterfield | D.40. Gloucester City |
| *D.18. Chichester | D.41. Gosport |
| D.19. Chiltern | *D.42. Gravesham |
| D.20. Corby | *D.43. Great Yarmouth |
| D.21. Craven | *D.44. Grimsby |
| *D.22. Dacorum | D.45. Halton |
| *D.23. Darlington | D.46. Hambleton |

(continued)

D. English Non-Metropolitan Districts: (continued)

- | | |
|----------------------------------|------------------------------|
| D.47. Hart | D.76. Oswestry |
| *D.48. Hove | *D.77. Oxford City |
| *D.49. Ipswich | D.78. Pendle |
| *D.50. Kerrier | D.79. Peterborough City |
| D.51. Kingston upon Hull City | *D.80. Plymouth City |
| *D.52. Kingswood | D.81. Poole |
| D.53. Lancaster City | *D.82. Portsmouth City |
| D.54. Lichfield | *D.83. Preston |
| *D.55. Lincoln City | D.84. Reading |
| *D.56. Maldon | *D.85. Redditch |
| D.57. Mansfield | D.86. Ribble Valley |
| *D.58. Melton | *D.87. Richmondshire |
| *D.59. Middlesbrough | D.88. Rochford |
| *D.60. Newark | D.89. Rother |
| *D.61. Newbury | *D.90. Rugby |
| D.62. Newcastle-under-Lyme | *D.91. Rushmoor |
| D.63. Northavon | D.92. Rutland |
| *D.64. Northampton | *D.93. Salisbury |
| D.65. North Cornwall | D.94. Scarborough |
| D.66. North Devon | *D.95. Scunthorpe |
| D.67. North Dorset | *D.96. Selby |
| D.68. North Herefordshire | D.97. Shepway |
| *D.69. North Norfolk | *D.98. Shrewsbury and Atcham |
| D.70. North Warwickshire | D.99. Slough |
| *D.71. North West Leicestershire | D.100. Southampton City |
| *D.72. North Wiltshire | D.101. South Cambridgeshire |
| D.73. Norwich City | D.102. South Derbyshire |
| D.74. Nottingham City | *D.103. Southend-on-Sea |
| *D.75. Nuneaton | *D.104. South Herefordshire |

(continued)

D. English Non-Metropolitan Districts: (continued)

- | | |
|-----------------------------|--------------------------------|
| D.105. South Holland | *D.127. Tiverton |
| *D.106. South Lakeland | D.128. Torbay |
| D.107. South Norfolk | D.129. Tunbridge Wells |
| D.108. South Ribble | D.130. Vale of White Horse |
| D.109. South Wight | *D.131. Vale Royal |
| D.110. Stafford | D.132. Wansbeck |
| D.111. Stevenage | D.133. Warrington |
| D.112. Stockton-on-Tees | D.134. Watford |
| *D.113. Stoke-on-Trent City | *D.135. Waverley |
| D.114. Stratford-on-Avon | D.136. Wealden |
| D.115. Stroud | *D.137. Wear Valley |
| D.116. Surrey Heath | *D.138. Welwyn Hatfield |
| *D.117. Swale | *D.139. West Derbyshire |
| *D.118. Tamworth | D.140. West Devon |
| D.119. Taunton Deane | *D.141. West Lindsey |
| *D.120. Teesdale | D.142. Winchester City |
| *D.121. Tendring | *D.143. Windsor and Maidenhead |
| D.122. Test Valley | D.144. Woodspring |
| *D.123. Thamesdown | D.145. Worcester City |
| D.124. Thanet | D.146. Wycombe |
| *D.125. Three Rivers | D.147. Wyre |
| *D.126. Thurrock | D.148. York City |

E. Greater London Authorities:

- | | |
|--------------|-------------------|
| *E.1. G.L.C. | E.5. Camden |
| E.2. Barking | *E.6. Hackney |
| *E.3. Barnet | *E.7. Hammersmith |
| E.4. Brent | *E.8. Haringey |

(continued)

E. Greater London Authorities: (continued)

- | | |
|-------------------------------------|----------------------------|
| E.9. Harrow | E.14. Richmond upon Thames |
| *E.10. Hillington | E.15. Tower Hamlets |
| E.11. Islington | E.16. Wandsworth |
| *E.12. Kensington and Chelsea Royal | *E.17. Westminster |
| *E.13. Lambeth | |

F. Welsh Counties:

- | | |
|--------------------|---------------------|
| *F.1. Gwent | *F.3. Powys |
| F.2. Mid Glamorgan | F.4. West Glamorgan |

G. Welsh Districts:

- | | |
|------------------------|---------------------------|
| *G.1. Alyn and Deeside | *G.11. Montgomery |
| *G.2. Arfon | *G.12. Newport |
| G.3. Cardiff City | G.13. Preseli |
| *G.4. Colwyn | G.14. Rhondda |
| *G.5. Cynon Valley | G.15. Rhymney Valley |
| *G.6. Dwyfor | G.16. South Pembrokeshire |
| *G.7. Glyndwr | G.17. Taff-Ely |
| *G.8. Llanelli | *G.18. Torfaen |
| *G.9. Lliw Valley | *G.19. Wrexham Maelor |
| *G.10. Monmouth | |

H. Scottish Regions and Islands:

- | | |
|----------------|---------------|
| *H.1. Fife | *H.4. Lothian |
| *H.2. Grampian | *H.5. Orkney |
| *H.3. Highland | H.6. Tayside |

I. Scottish Districts

- *I.1. Angus
- *I.2. Berwickshire
- *I.3. Clydebank
- *I.4. Cumbernauld
- *I.5. Cumingham
- I.6. Dumbarton
- *I.7. Dundee City
- *I.8. East Kilbridge
- I.9. East Lothian
- *I.10. Eastwood
- I.11. Edinburgh City
- I.12. Ettrick and Lauderdale
- I.13. Falkirk
- *I.14. Glasgow City
- *I.15. Gordon
- *I.16. Hamilton
- I.17. Inverclyde
- I.18. Kirkcaldy
- *I.19. Lanark
- I.20. Midlothian
- I.21. Monklands
- *I.22. Motherwell
- I.23. Renfrew
- *I.24. Stewartry
- *I.25. Stirling
- I.26. Tweeddale
- *I.27. Wigtown

APPENDIX C

Selected Statistical Tables on the Questionnaire

Table C.1

Selecting the Size of the Sample

Type and Region	Population	Sample Size (50% of population)
A. ENGLAND:		
Metropolitan Counties	6	3
Metropolitan Districts	36	18
Non-Metropolitan Counties	39	20
Non-Metropolitan Districts	296	148
Greater London Authorities	34	17
TOTAL	411	206
B. WALES:		
Counties	8	4
Districts	37	19
TOTAL	45	23
C. SCOTLAND:		
Regions and Islands	12	6
Districts	53	27
TOTAL	65	33
GRAND TOTAL	521	262

Table C.2
Breakdown of Response by Type and
Location of Authority

Type and Region	Total Sent	Total Returned	Returns as % of total
A. ENGLAND:			
Metropolitan Counties	3	1	33.3
Metropolitan Districts	18	10	55.6
Non-Metropolitan Counties	20	15	75.0
Non-Metropolitan Districts	148	73	49.3
Greater London Authorities	17	9	52.9
TOTAL	206	108	52.4
B. WALES:			
Counties	4	2	50.0
Districts	19	13	68.4
TOTAL	23	15	65.2
C. SCOTLAND:			
Regions and Islands	6	5	83.3
Districts	27	16	59.3
TOTAL	33	21	63.6
GRAND TOTAL	262	144	55.0

Table C.3
Action taken by Authorities contacted
during the Survey

	No. of Authorities	%
Questionnaire completed in full	138	52.7
Questionnaire completed in part	6	2.3
Total authorities completed the questionnaire	144	55.0
Questionnaire not completed but a reason given by a letter:		
Pressure of work and staff's shortage	5	
Objection to the questionnaire's style	4	
The authority is a new one	4	
No benefit would be obtained from answering the questionnaire as a result from the authority's situation	3	
Other reasons	2	
Total authorities responding	162	61.9
Authorities contacted who did not respond	100	38.1
Total authorities contacted during survey	262	100.0

Table C.4

Breakdown of the responding authorities according to type and location and in relation to the introduction of new budgetary changes

Type and Region	Authorities with budgetary changes		Authorities without budgetary changes		Total	
Metropolitan Counties	1	(1.5)	-		1	(0.7)
Metropolitan Districts	6	(9.1)	4	(5.1)	10	(7.0)
ENGLAND Non-Metropolitan Counties	12	(18.2)	3	(3.8)	15	(10.4)
ENGLAND Non-Metropolitan Districts	31	(47.0)	42	(53.8)	73	(50.7)
Greater London Authorities	8	(12.1)	1	(1.3)	9	(6.2)
sub-total	58	(87.9)	50	(64.1)	108	(75.0)
Counties	-		2	(2.6)	2	(1.4)
WALES Districts	2	(3.1)	11	(14.1)	13	(9.0)
sub-total	2	(3.1)	13	(16.7)	15	(10.4)
Regions and Islands	3	(4.5)	2	(2.6)	5	(3.5)
SCOTLAND Districts	3	(4.5)	13	(16.7)	16	(11.1)
sub-total	6	(9.0)	15	(19.2)	21	(14.6)
TOTAL	66	(45.8)	78	(54.2)	144	

(Figures in brackets are percentages)

Table C.5

Breakdown of the authorities according to their rateable value in relation to the introduction of new budgetary changes

Rateable Value* (£M)	Have you introduced new budgetary changes?						Total	
	YES			NO				
	No.	Co. %	Row %	No.	Co1. %	Row %	No.	%
Less than 10	11	16.6	19.0	47	60.3	81.0	58	40.3
10 -	37	56.1	57.8	27	34.6	42.2	64	44.4
50 -	18	27.3	81.8	4	5.1	18.2	22	15.3
Total	66		45.8	78		54.2	144	

Chi Square = 32.05 which is significant at .01 per cent level

Table C.6

Type of budgetary changes in relation to size of authority

Authorities size (rateable value)*	Type of budgetary changes				Total	
	Simple		Sophisticated			
	Freq.	%	Freq.	%	Freq.	%
Small	15	17.6	-	-	15	16.1
Medium and large	70	82.4	8	100.0	78	83.9
Total	85	91.4	8	8.6	93	

Fisher Exact Probability = 0.23 which is not significant

* From Municipal Year Book, 1976

APPENDIX D

Extract from the Capital and Revenue Estimates
of the Greater London Council, 1971-72

Arts and Recreation Committee

<u>Capital:</u>	1971-72	1970-71 (original)	Difference
	£	£	£
Parks and open spaces: Expenditure			
A. Provision for new open spaces			
1. Acquisition			
Parks and open spaces	70,000	445,000	-375,000
Thames-Action projects	-	5,000	- 5,000
2. Layout			
Parks and open spaces including Thames-Action projects	165,000	275,000	-110,000
B. Major Improvements			
Parks and open spaces	30,000	45,000	-15,000
Crystal Palace national recreation centre	20,000	-	+20,000
Alexandra Park and Palace	90,000	80,000	+10,000
C. Green Belt Contribution	25,000	-	+25,000
Total	400,000	850,000	-450,000
Provisional allocation from the Policy and Resources Committee's Reserve for new developments fore- seen	300,000	50,000	+250,000
Total expenditure	700,000	900,000	-200,000
<u>Revenue:</u>		£	
	Gross Expenditure	Income	Net Expenditure
Summary of Estimates:			
Parks and open spaces	3,487,000	433,000	3,054,000
Green Belt	205,000	74,000	131,000
Alexandra Park and Palace	486,000	293,000	193,000
South Bank and Crystal Palace	336,000	40,000	296,000
Smallholdings	55,500	56,000	500
Royal Festival Hall	883,000	598,000	285,000
Support of the Arts	700,000	-	700,000
The Iveagh Bequest and Marble Hill House	108,000	15,000	93,500
	6,261,000	1,509,000	4,752,000

(continued)

<u>Parks and Open Spaces:</u>	Estimates			Actual 1969-70 £
	1971-72 £	1970-71 (original) £	Difference £	
Expenditure				
A. Staff	1,626,000	2,552,000	926,000	2,333,940
B. Land and buildings				
1. Repairs and maintenance	156,000	245,000	-89,000	277,432
2. Alterations and improvements	15,000	11,000	+4,000	46,271
3. Fuel, light, cleaning and water	96,000	136,000	-40,000	140,571
4. Rent, rates and insurance	19,000	53,000	-34,000	44,963
5. Other expenses	4,000	7,000	-3,000	17,827
C. Supplies and services				
1. Equipment and tools	36,000	44,000	-8,000	56,287
2. Materials and provisions	161,000	226,000	-65,000	205,409
3. Other services	1,000	32,000	-31,000	17,626
D. Transport and mobile plant	107,000	121,500	-14,500	143,137
E. Special activities				
1. Entertainment and sports	117,000	106,000	+11,000	90,440
2. Playparks	69,000	125,000	-56,000	129,880
3. Deck chair service	2,000	5,500	-3,560	4,350
4. Greenwich Pier	16,000	15,000	+1,000	13,768
5. Crystal Palace catering	-	-	-	4,048
F. Office expenses	36,000	33,000	+3,000	30,931
Total of Committee's expenditure	<u>2,461,000</u>	<u>3,712,000</u>	<u>-1,251,000</u>	<u>3,567,880</u>
Allocation from other Committees				
Administration charges				
Staff in parks dept	385,000	328,000	+57,000	308,933
Staff in other depts	212,000	203,000	+9,000	204,475
Central administrative offices				
Office charges	65,000	56,000	+9,000	57,858
Superannuation Fund	60,000	49,000	+11,000	46,078
deficiency contribution, etc	47,000	58,000	-11,000	54,079
Maintenance of properties by Housing Committee				
	8,000	14,000	-6,000	18,964

(continued)

F. Office expenses (continued)

Maintenance of properties by Environmental Planning Committee	8,000	19,000	-11,000	22,654
General Purposes Committee publicity and information	36,000	35,000	+1,000	34,405
Debt charges	233,000	948,000	-715,000	839,956
	<u>1,054,000</u>	<u>1,710,000</u>	<u>-656,000</u>	<u>1,587,402</u>
Less: charges to other Committees	61,000	55,000	+6,000	54,193
Net charges from other Committees	<u>993,000</u>	<u>1,655,000</u>	<u>-662,000</u>	<u>1,533,209</u>
Total estimate	3,454,000	5,367,000	-1,913,000	5,101,089
Provisional allocation from the Policy and Resources Committee's reserve for new development foreseen	33,000	40,000	-7,000	-
Gross expenditure	<u>3,487,000</u>	<u>5,407,000</u>	<u>-1,920,000</u>	<u>5,101,089</u>
<u>Income</u>				
Open air entertainment	156,560	123,000	+33,500	106,418
Games and Championships	144,000	200,000	-56,000	204,056
Swimming	8,000	25,000	-17,000	32,862
Children's Zoos	13,000	8,000	+5,000	8,833
Refreshment and other licences	11,500	17,500	-6,000	16,324
Rents and wayleaves Crystal Palace	39,000	107,000	-68,000	113,687
Catering	-	-	-	5,015
Investment income	15,000	13,500	+1,500	13,040
Deck chair service	1,500	8,000	-6,500	7,730
Recoverable expenditure	14,000	17,000	-3,000	33,920
Exchequer grant	15,000	15,000	-	10,874
Miscellaneous income	16,560	11,000	+5,560	36,726
Total of Committee's income	<u>434,000</u>	<u>545,000</u>	<u>-111,000</u>	<u>589,485</u>
Less: income due to other committees	1,000	1,000	-	-
Total income	<u>433,000</u>	<u>544,000</u>	<u>-111,000</u>	<u>589,485</u>
Net Expenditure	<u>3,054,000</u>	<u>4,863,000</u>	<u>-1,809,000</u>	<u>4,511,604</u>

APPENDIX E

Extract from the Programme
Budget of the Greater London Council,
1973/74 and Projections to 1978/79

A. Arts and Recreation Programme Group

Objective: To create a richer environment by providing, improving and encouraging investment and participation in the opportunities available for the use of leisure time.

Budget 1972/73		Budget (£'000)		Projections		77/78
		1973/74	74/75	75/76	76/77	
		CAPITAL				
	Expenditure					
1,225	A.1 Recreation	2,358	1,780	1,715	1,670	1,810
1,850	A.2 Culture	1,377	490	170	20	150
125	A.3 Enrichment of the Environment	185	235	235	235	235
<u>3,200</u>		<u>2,920</u>	<u>2,505</u>	<u>2,120</u>	<u>1,925</u>	<u>2,195</u>
	Loans					
250	A.1 Recreation	250	250	250	250	250
		REVENUE				
	Expenditure					
5,978	A.1 Recreation	6,580	7,075	7,445	7,840	8,235
2,591	A.2 Culture	3,001	3,375	3,565	3,590	3,645
1,004	A.3 Enrichment of the Environment	1,351	1,365	1,365	1,410	1,435
<u>9,573</u>		<u>10,932</u>	<u>11,815</u>	<u>12,400</u>	<u>12,840</u>	<u>13,315</u>
	Income					
937	A.1 Recreation	937	965	985	1,010	1,020
764	A.2 Culture	811	760	810	810	810
204	A.3 Enrichment of the Environment	193	200	205	205	205
<u>1,905</u>		<u>1,941</u>	<u>1,925</u>	<u>2,000</u>	<u>2,025</u>	<u>2,035</u>
	Net Expenditure					
5,041	A.1 Recreation	5,643	6,110	6,460	6,830	7,215
1,827	A.2 Culture	2,190	2,615	2,755	2,780	2,835
800	A.3 Enrichment of the Environment	1,158	1,165	1,185	1,205	1,230
<u>7,668</u>		<u>8,991</u>	<u>9,890</u>	<u>10,400</u>	<u>10,815</u>	<u>11,280</u>

Manpower (Numbers)						
490	A.P.T.E.C. staff	571	598	595	593	602
1,437	Other staff	1,457	1,467	1,469	1,458	1,464
		<u>2,028</u>	<u>2,064</u>	<u>2,051</u>	<u>2,051</u>	<u>2,066</u>
1,927						

A.1 Recreation

Objective: To provide opportunities for, and encourage participation in, recreational pursuits.

Budget 1972/73	(£'000)	Budget 1973/74	74/75	Projections 75/76	76/77	77/78
CAPITAL						
Expenditure						
1,100	A.11 Parks and open spaces	1,908	1,320	1,225	1,270	1,380
-	A.12 Alexandra Palace	25	-	-	-	-
-	A.13 Crystal Palace	75	100	150	150	190
125	A.14 Special recreation and entertainment	350	360	340	250	240
<u>1,225</u>		<u>2,358</u>	<u>1,780</u>	<u>1,715</u>	<u>1,670</u>	<u>1,810</u>
Loans						
250	A.11 Parks and open spaces	250	250	250	250	250
REVENUE						
Expenditure						
4,338	A.11 Parks and open spaces	4,455	4,705	4,890	5,075	5,270
407	A.12 Alexandra Palace	500	500	500	500	500
29	A.13 Crystal Palace	40	55	60	65	70
797	A.14 Special recreation and entertainment	875	930	945	955	980
37	Research	50	50	50	50	50
91	General Services					
279	Programme recharge	102	100	100	100	100
	Debt charges	558	735	900	1,095	1,265
<u>5,978</u>		<u>6,580</u>	<u>7,075</u>	<u>7,445</u>	<u>7,840</u>	<u>8,235</u>
Income						
290	A.11 Parks and open spaces	360	385	405	425	445
289	A.12 Alexandra Palace	342	345	345	345	335
38	A.13 Crystal Palace	36	35	35	35	35
320	A.14 Special recreation and entertainment	199	200	200	205	205
<u>937</u>		<u>937</u>	<u>965</u>	<u>985</u>	<u>1,010</u>	<u>1,020</u>
Net Expenditure						
4,048	A.11 Parks and open spaces	4,095	4,320	4,485	4,650	4,825
118	A.12 Alexandra Palace	158	155	155	155	165
9	A.13 Crystal Palace	4	20	25	30	35
477	A.14 Special recreation and entertainment	676	730	745	750	775

(continued)

37	Research	50	50	50	50	50
91	General services	102	100	100	100	100
279	Debt charges	558	735	900	1,095	1,265
<u>5,041</u>		<u>5,643</u>	<u>6,110</u>	<u>6,460</u>	<u>6,830</u>	<u>7,215</u>
<u>1,446</u>	Manpower (Numbers)	<u>1,463</u>	<u>1,488</u>	<u>1,483</u>	<u>1,470</u>	<u>1,482</u>

APPENDIX F

Example of a Programme Budget for Transportation
in Gloucestershire
1971/72 Budget*



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- * From R. Greenwood and J.D. Steward, Corporate Planning in English Local Government, London : Charles Knight and Co. Ltd., 1974, p.544

APPENDIX G

Procedure for Formulating Decision Packages
in a Zero-Base Budgeting Process

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Source: Peter A. Pyhrr, Zero-Base Budgeting, New York : John Wiley & Sons, 1973, p.200

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