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SOME PRACTICAL ASPECTS OF DEVELOPMENT BUDGETING

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How often has a country committed itself to an elaborate development plan, only to find after two or three years that the pattern of actual expenditure bears little or no relation to what was so convincingly set out in the published plan. During the anuual budget process all the carefully worked out priorities and sector allocations tend to become submerged by the tide of political and practical pressures and realities; and because some of the more economically desirable projects turn out to be slow and difficult to implement their allocations tend to be diverted to others which, though their economic priority may be lower, are easier to achieve.

The instrument through which a public sector development plan is converted into a program for action is the national budget, for it is this which provides the legislative authority for the planned expenditure to take place and governs the flow of allocations. National expenditures have necessarily to be authorized annually in the light of the expected revenue flow, and budgeting must therefore be carried out on an annual basis. Where a development budget differs from the budget of a country in which no planned development is taking place is that, in the case of the former, each annual budget must be regarded only as a phase of an outline longer-term budget covering the whole of the period of the plan, and providing for various expenditure and revenue targets to be reached in the final phase of that period, in line with the various development goals envisaged in the plan. This is clearly very different from what may be called the non-developmental budgetary concept, where the aim is little more than to contain the cost of maintaining existing essential establishments within the expected revenue total, with perhaps a little left over for non-recurrent expenditure of a more or less developmental character, and to leave the future to be looked after next year. It is where development plans are combined with a non-developmental budgetary system that they tend to lapse into inanition, for as each year goes by the difficulty of giving budgetary effect to the plan becomes greater and greater.

It follows that an essential part of the work of preparing a development plan is the drawing up of an outline budget for each of the years of the plan period, including not only the provisions for project expenditure but also the projected requirements of each department for recurrent expenditure year by year. An important part of the planning function, often overlooked, is to forecast the additional recurrent expnditure which will become necessary as development projects are completed and so give rise to new commitments for recurrent expenditure for their annual maintenance. Thus the recurrent budget is just as much the concern of the planners as is the strictly developmental or capital budget, and conversely the details of the development program are just as much the concern of the budget officers as are those of the recurrent budget. The budget as a whole requires the attention of both types of official.

Although the principles of development budgeting require that both planners and budget officers should look at the national budget as a whole, there are nevertheless certain differences necessary in the procedures for dealing with recurrent and developmental appropriations. In the case of the recurrent expenditure the strictly annual method of budgeting is quite suitable, and any charges which fail to be met in one year will naturally fall to be paid from the corresponding appropriation for the next year. Departmental estimates should be kept under ceilings representing the projections of requirements for the year as set out in the development plan, which will allow for whatever degree of expansion is thought acceptable in the context of the plan.

In the case of development expenditure the principles should be somewhat different. It is frequently difficult to make firm rules from an economic standpoint about what should properly be regarded as development expenditure and what as recurrent; such niceties are not important. From a budgetary point of view there is one essential criterion, and that is, that each item of the development estimates for any year must relate to that year's phase of a project which has a beginning and an end. There must be no open-ended development items; expenditure of an open-ended nature is indistinguishable from recurrent expenditure and should be so treated. Where the development program of a department involves very long and indeterminate projects they should for planning and budgetary purposes be split into phases of a few years containing specific limited objectives. Each phase will then satisfy the definition of a project with a beginning and an end, and can form an item in the development budget.

The development budget will of course contain the appropriation for the estimated expenditure for each such item for the year to which the budget relates. Since each such item concerns a specific project, however, the budget should also show the total estimated cost of the project and the expected phasing of the expenditure for each year of the plan period, with any balance to complete the project which may be phased to fall after the end of the plan period. As the planning period proceeds the budget will also show the amounts spent in the years of the plan that have passed. For the immediately preceding year the expenditure will have to be an estimate, as the final figures will not be known by the time the budget is prepared.

It will, no doubt, frequently happen that work on a project does not go at the estimated speed, due to non-arrival of equipment or other unavoidable reason. In such a case there may be underspending in one year and corresponding additional charges to be met in the following year, but the likelihood of this may not be known at the time the following years's budget is authorised. A simple procedure will then be required to allow the unspent provision to be carried forward, in order that work on the project may go forward smoothly.

While minor adjustments in the phasing of project time-schedules should be made easy, it is essential that the actual expenditure on projects should be kept strictly to the cost estimates, except where it is decided by the proper authority that a change is justified. The figure for "total estimated cost" of each project appearing in the development budget must thus be regarded as just as binding as the year's appropriation for the project, and changeable only in the same way, that is to say, by means of a warrant issued by the Budget Bureau after the change has been approved by the planning authority. Such changes should normally be balanced over the development plan as a whole, so that an increase in one project is set off against a decrease in the cost of another.

It will thus be seen that the development budget is used not only as a means of controlling annual expenditure, but also as the instrument for controlling the implementation of the development plan as a whole, and for ensuring that no alterations are made in it without the specific approval of the planning authority. This is not to say that it is either likely or even desirable that the development program will remain completely rigid during the period of the plan. Planning control must be dynamic and flexible if the plan is to be kept up-to-date, but at all times it must be clear what departures from the original program have been permitted, otherwise the original planning document will become a dead letter and a source of cynical disillusion. Proper use of the development budget is the way to prevent this, and this includes a free use of the appropriate warrants to authorise approved changes in the course of a year, if such changes are really necessary.

Halfway through the plan period the program should be thoroughly re-examined by the planning authority in the light of achievements to date. At this stage total estimated costs of projects as well as the phasing of the annual work schedules will be revised. It may be necessary to revise the expenditure targets for the plan as a whole, not only in respect of individual projects but also for whole sectors, in the light of the experienced gained in the early part of the period. It may also be necessary to make provision at this stage for surveys and studies in preparation for the next planning period. As a result of the re-examination considerable changes will be made in the development expenditure program as it appears in the development budget of the current year. It is important that the following year's development budget, which will incorporate the revised program, should contain notes providing a full reconciliation of the new figures with those that appeared previously, quoting the authority for the changes. There will thus be no doubt that the planning impetus is still very much alive, even though the program may have had to suffer quite drastic alteration to keep in step with reality.

It is unlikely that at the beginning of the plan period the program of all the departments will be sufficiently clear for the whole of their allocations in the plan to be expressed in project form in the development budget. Nevertheless, the whole of their financial allocations for the plan period, with approximate phasings for each year, should be shown in the budget, even if some of it has to be marked as unallocated to projects. It is to be hoped that the program of work and expenditure for each department for the first two years will be clear enough, the necessary studies having taken place before the beginning of the plan period. There will also be some items representing the completion of projects carried over from the last plan, and some providing only for planning and investigation expenditure on projects which will follow later. All these types of expenditure should be phased within the total sectoral allocation of the department concerned. The entries for the future years will be tentative, but will become firmer and firmer as each year passes, until they eventually form part of the entry for actual expenditure in past years. In the final years of the plan a substantial part of the program for the next planning period will be automatically bbuilt up in the form of the completing phases of projects which carry over from one plan to the next.

Since the development budget has the function of representing the financial aspect of the plan as a whole, it follows that it must include not only the expenditure from local resources but also any expenditure that is financed from foreign aid. As this aid may not be channelled through the local Treasury, it may not appear in the column showing the actual legislative appropriations for the year. It should, however, appear in an adjoining column, and totals should also be shown of the expenditure, both local and foreign, on each project for each year. Foreign aid, whether or not it passes through the Treasury, is a form of Government revenue and the expenditure which takes place with it is a part of the development program of the department under which it falls. It will generate a need for future recurrent expenditure and, directly or indirectly, a contribution to recurrent revenues, just as much as will the development expenditure directly financed from local resources.

While the development budget is an important instrument both for controlling and for measuring the results of the development effort in financial terms, it is also necessary that the Planning Department should establish systems for controlling and measuring the results of the effort in physical terms; that is to say, by following the progress of the actual work on projects in the field. The time-schedules for the progress of the work will not be the same as those for the flow of cash expenditure, but the one is a helpful and necessary guide to establishing the other; more specifically, an accurate knowledge of the physical progress is helpful in evaluating the expenditure requests of departments and avoiding the unnecessary tying-down of funds in the year's appropriation for one project, when there is in fact no likelihood that they can be spent on that project until the next year, and could better be allocated to speeding up progress on another project in the mean time. Whereas with recurrent expenditure it is usually desirable to minimize spending, in the case of development expenditure on a productive program it may be more necessary to ensure that available funds are fully spent up to schedule. The Budget Bureau and the Planning Department thus need to be very closely associated in all aspects, not only of development planning and budgeting but of plan implementation and performance review.

We have seen that in the national budget expenditure on development projects needs to be set out in a different form from that appropriate to recurrent expenditure, since such projects will usually take more than one year to complete, and it is essential that the commitment for the project as a whole should be declared and accepted at the start if the expenditure is to achieve the objects designed for it in the development plan. We have also seen that it is essential for work on each project to continue smoothly from year to year, and the financial arrangements must be such that this can be achieved. If the proper budgetary process has been carried out there will be no danger that the approved expenditure in the budget will not be covered by available resources, whether these are derived from Government revenues or from foreign or domestic borrowing. At first sight it would appear that, provided the budget is a balanced one, there should be no problem in maintaining the cash flow necessary to cover all the expenditures as they occur, since any irregularities in the pattern of expenditure inflow should be easily coverable by a moderate amount of short-term borrowing from the banking system. Where this is not the case the answer is that there is something radically wrong with the accounting system, and this must be put right before there can be any hope of successfully carrying out a substantial development programme.

It is bad enough in the case of an old-fashioned recurrent expenditure budget to find that, even though the revenue does in fact flow in during the year to at least the extent forecast, expenditures nevertheless have to be postponed or, what is very much worse, suppliers, bills have to be left unpaid because of a shortage of ready cash. The curtailing of recurrent expenditure, provided it does not result in the deterioration of precious assets, may even to some extent be considered desirable; though this should never really be so if the budget has been prepared with proper care. Where a development budget is concerned, however, any holding back of the approved programs represented in it must, by definition, be regarded as highly undesirable, since this will hinder the achievement of carefully planned developmental targets intended to benefit the nation. For the budget to be a successful implement of development policy it is necessary that proper thought should be given to the availability not only of finance but of working cash, and these are not necessarily the same thing.

In order to ensure the ready availability of working cash to meet budgeted expenditure, the first requisite is that all cash over which the Treasury has control should be economically used; and here it must be noted that economic use of cash is a very different thing from economy in spending. Working cash is wasted when it is left idle by being tied up in unncessary deposits or separate bank accounts, in over-large imprests with foreign missions which themselves collect additional cash by way of revenue, or in being set aside to cover unpresented cheques which are long overdue, or vouchers which through dilatory processing systems are slow to be paid. The worst crime of all in this respect is, of course, the delaying of payments to revenue by failing to pass on promptly cheques which have been received for Government account.

Any government Treasury must maintain a great many different accounts; apart from the general revenue account, revenue receipts and budgetary payments are recorded, a great many transactions will take place "below the line", such as receipts and payments for deposit accounts, imprests, loans and advances, cash floats for revolving funds and trading accounts, and receipts and payments of money held in trust. In order to make the best use of cash, the assets belonging to all these accounts will usually be held in one consolidated Government bank account together with those of the general revenue account, the detailed bookkeeping for all the different accounts being done in the Treasury. But whereas the transactions on the general revenue account follow strict budgetary appropriations, so that with a balanced budget they cannot cause a deficit unless there is an unexpected drop in revenue receipts, those transactions which occur "below the line" may be far less accurately forecast, or perhaps not forecast at all. If this is so, the "below the line" accounts may from time to time be responsible for embarrassing cash outflows which prevent legitimate budgetary expenditure from being undertaken or incurred bills from being paid.

Given the experience of past years as a guide, it is not impossible to make a forecast of the net amount by which the "below the line" accounts will be drawn down during the year. The forecast may not be very accurate, but it should be sufficient for an estimate to be made of the borrowing requirement which will be necessary to cover such outgoings. Unless the country is in the fortunate position of having a substantial revenue balance carried forward from previous years or is able to budget for a current revenue surplus any such net drawings can only be met by borrowing, and since all "below the line" charges should be self-liquidating in due course this is the proper way to meet them. This is the basic amount of floating debt (perhaps in the form of bank overdraft) which will be necessary to prevent the operation of the "below the line" accounts from interfering with the course of budgetary expenditure. An additional amount of short-term borrowing will normally be necessary in order to even out the flows of revenue and budgetary expenditure during the course of the year, since they can be expected to follow different time patterns. If these steps are taken it will be possible for all duly authorised budgetary expenditure to go forward without hindrance throughout the year and for all properly incurred bills to be paid immediately upon presentation. There will no doubt be an increase in interest charges when the short-term borrowing level is raised to a realistic amount, but this should be more than compensated for by a fall in expenditure on locally purchased supplies and services once the suppliers become confident that they will receive prompt payment. In most countries governments receive substantial discounts on local purchases if they are big customers who pay their bills promptly.

It has been necessary to discuss the steps required to ensure the smooth flow of ordinary annual budgetary expenditure before considering what special arrangements are desirable for dealing with expenditure on development projects, work on which should proceed without interruption according to the approved program from year to year until the project is finished. This could not possibly be achieved without the ordinary budgetary expenditure difficulties first being put right.

In order to deal expeditiously with development expenditure many countries have found it best to set up a development fund with its own separate development budget, instead of attempting to introduce project budgeting into the ordinary recurrent budget. In countries where cash resources are limited (or, for that matter, where they are plentiful) it is not desirable that the development fund should have its own bank account separately from the general revenue fund, as this would be an uneconomical use of cash. The development fund is, however, accounted separately in the Treasury, being treated as a trust fund whose assets form part of the liabilities of the general revenue fund, where it is accounted "below the line".

There will be paid into the development fund (1) all monies appropriated in the ordinary budget from the general revenues for the purposes of the development budget; and (2) all monies received specifically for development purposes, such as foreign loans and grants, the proceeds of any domestic loans raised for development, or of any revenues specially assigned by law to the development fund. (These revenues might be from royalties on wasting assets such as minerals or petroleum, or capital sums received from sales of land or property; repayments of loans made from the development fund to corporations or local authorities for development purposes are usually also paid back to the fund). In addition to the estimates of development expenditure, the development budget will also show the estimates of revenue accruing to the development fund for the year, which will of course have to match the expenditure program.

When the development budget relates to a separate fund of its own it is possible to apply to it without confusion different regulations from those relating to the ordinary expenditure budget. Approval will be by a separate legislative act, and not only the year's appropriations for each project but also the total estimated cost of each project will be formally approved. Freedom will then be given to the executive to make transfers between the annual appropriations for the projects provided (1) that the total estimated cost of any project is not exceeded, and (2) that the total of the appropriations for the year is not exceeded. Power may also be given to the executive to increase the total estimated cost of one project provided that at the same time the total estimated cost of another is correspondingly reduced. There will be simple warrant forms by which these executive instructions are conveyed. With this amount of flexibility it should be quite possible to adjust the appropriations according to the speed of different projects, including the revival where necessary of unspent balances from the previous year, without in any case exceeding the total budgeted expenditure from the development fund in any year. Provided a close watch is kept on the actual progress of all projects it will always be possible to locate underspending on one or more items to cover any increase required on another, within the limits of approved total estimated cost.

The development fund system described above has been amply proved in practice to be simple and effective. There is one important requirement to make it work, and that is that all the spending departments should have confidence that the appropriations made in the development budget will be adhered to without any sudden cutting down of appropriations by the Treasury or the Budget Bureau. Provided that the budget is properly covered by resources at the time it is approved, and provided the Treasury has taken proper steps to cover the non-budgetary "below the line" outgoings and to meet revenue seasonalities by short-term borrowing, there is no reason why all commitments should not be paid on time and all allocations made available when required.