# Chapter 6:
# Public Budgeting

# What is Public Budgeting?

- **Public Budgeting:**
  - It is a financial plan that estimates the expenditures and revenues of a state for the next or future financial year (usually one year period).
  - This process reflects the economical, social policies in the country.

# The difference between public and private budgeting

1- The purpose of public budgeting is more comprehensive that aims to provide services to citizens. However, Private aims to focus on the financial center of the company.

2- The economical and social effects caused by public budgeting are bigger than private budgeting.

– The public budgeting affects more at different levels of the country.

# The difference between public and private budgeting

3- The controlling or regulatory agencies that monitor on executing public budgeting are various (e.g. regulatory agencies inside and outside the organization.).

4- The stages of public budgeting preparation is longer and more complex than private budgeting.

- (We will discuss the steps later at this chapter)

# Public Revenues

- **Different sources of revenues:**
  - Services fees and charges. (e.g. electricity fees, traffic charges).
  - Taxes. (property and income tax in U.S.A).
  - Public debt.
    - government borrows money from investors so that government will obligate (by issuing bonds) to pay the money back with interests to the investors or institutions.
  - External loans (e.g. country borrowing from other countries).
  - Other country’s properties and assets.

# Public Expenditures

- **Different examples of expenditures:**
  - Spending on continuous services and programs offered by governmental organizations. (e.g. education, defense, and health)
  - Spending on public personnel salaries and wages.
  - Spending on public capital projects and investments.
  - Spending on office needs or demands.
  - Spending on unusual crisis, such as natural disasters.

# Kinds of Public Budgeting

1- Traditional Budget.

2- Performance Budget.

3- program Budget.

4- Zero-based Budget.

5- New performance Budget.

# 1) Traditional Budget

- It is also called “Line-item budget”
- Expenditures and money allocation are made on an administrative-department basis, not on the basis of what departments really want to achieve. (e.g. money allocation for defense department, Health dept., education dept. etc.).
- This kind is most used in many developing countries.

# 1) Traditional Budget

- Traditional Budget is characterized with ***<u>inputs</u>*** (what is purchased). For example:
  - **primary education:**
    - Teachers.
    - Computers.
    - Papers.
    - Utilities.
    - Etc.

# 2) Performance Budget

- The expenditures and money allocation would be determined based on how the activity/project would be performed.

- “In performance budgets, information should be organized in terms of activities (repairing roads, planting trees, treating patients, teaching students, etc.). The activities should be measured; costs should be identified for these activities; and efficiency of performing these activities should be evaluated.” (Mikesell, 2011)

# 2) Performance Budget

- Performance Budget is characterized with ***outputs*** or activities (what is done). For example:
  - **Primary Education:**
    - Person hours of teaching.
    - Number of students taught.

# 3) Program Budget

- The major idea of this kind is how the specific program would achieve the public objectives regardless of what the agency would perform this program.

# 3) Program Budget

- Program Budget is characterized with ***<u>outcomes</u>*** or results (what is accomplished). For example:
  - **Program: decreasing the number of smokers**
    - Departments responsible: education dept, health dept.

# 4) New Performance Budget

- focusing on results or outcomes of an agency.

- “The idea of new performance budgeting is that social goal, the outcomes or results, is what matters for government performance, not the direct outputs or activities of an agency.” (mikesell, 2011)

- “new performance budgeting tests an agency on results.”(Mikesell, 2011)

# 4) New Performance Budget

- New Performance Budget is characterized with ***<u>outcomes</u>*** or results (what is accomplished). For example:
  - **Primary Education:**
    - Educational attainment and development.
    - Number of students getting good grades by empowering classes/courses.

# 5) Zero-based Budget

- Every agency would develop its budget every year, without looking at the previous year’s budgets.

- Every year, the budget would start from the beginning, from the Zero base, estimating new spending and revenues, and new programs. Thus, the effects from the past years will not be considered at the current year budget.

# Stages of Budget Preparation

1- Preparation Stage.

2- Approval Stage.

3- Executive Stage.

4- Oversight Stage.

5- Final Account or Statement.

# 1- Preparation.

- **Steps**:

1- Evaluating the economical situation and estimating the public revenues.

2- Issuing the document of budget preparation to ministries and other governmental agencies, done by finance ministry.

3- The start of making the budget in each ministry.

4- Study and evaluating of ministries' budgets by Finance Ministry.

# 2- Approval

- After studying the public budget and approved by the finance minister, the finance minister will present the proposed public budget to the legislative body to give the approval.

# 3- Executive stage

- Finance ministry will send the public budget to each ministry or governmental agency attached with some instructions. Thus, each agency will start implementing its budget's items as determined before.

# 4) Oversight Stage

- Basically, the legislative authority would make sure if the executive agencies would perform its budget as determined.
- The finance department would make sure if there is any deviations in spending or any violations.
- There are internal and external oversights:
  - **Internal oversight**: done by the same administrative agency.
  - **External oversight**: done by representatives of finance ministry.

# 5) Final account and statement

- Each agency or ministry must make the final statement. The ministry will make and collect the required data about its results through the previous year and send to the finance ministry.

- This is very important to show the real revenues and expenditures from the previous year.