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3 SESSIONS BY:

1. Overview of Budgeting in Public Sector

- Dr Muslim Har Sani Mohamad

2. Outcome Based Budgeting (OBB) and Budget Cycle in Malaysian Government

- Dr Siti Alawiah Siraj

3. Public Private Partnership: Malaysian Experience

- Prof Dr Suhaiza Ismail

1. OVERVIEW OF BUDGETING IN PUBLIC SECTOR

Budgeting – Planning and Control in Public Sector Organizations

Development of Budgeting Techniques in Public Sector

The Modified Budgeting System (MBS)

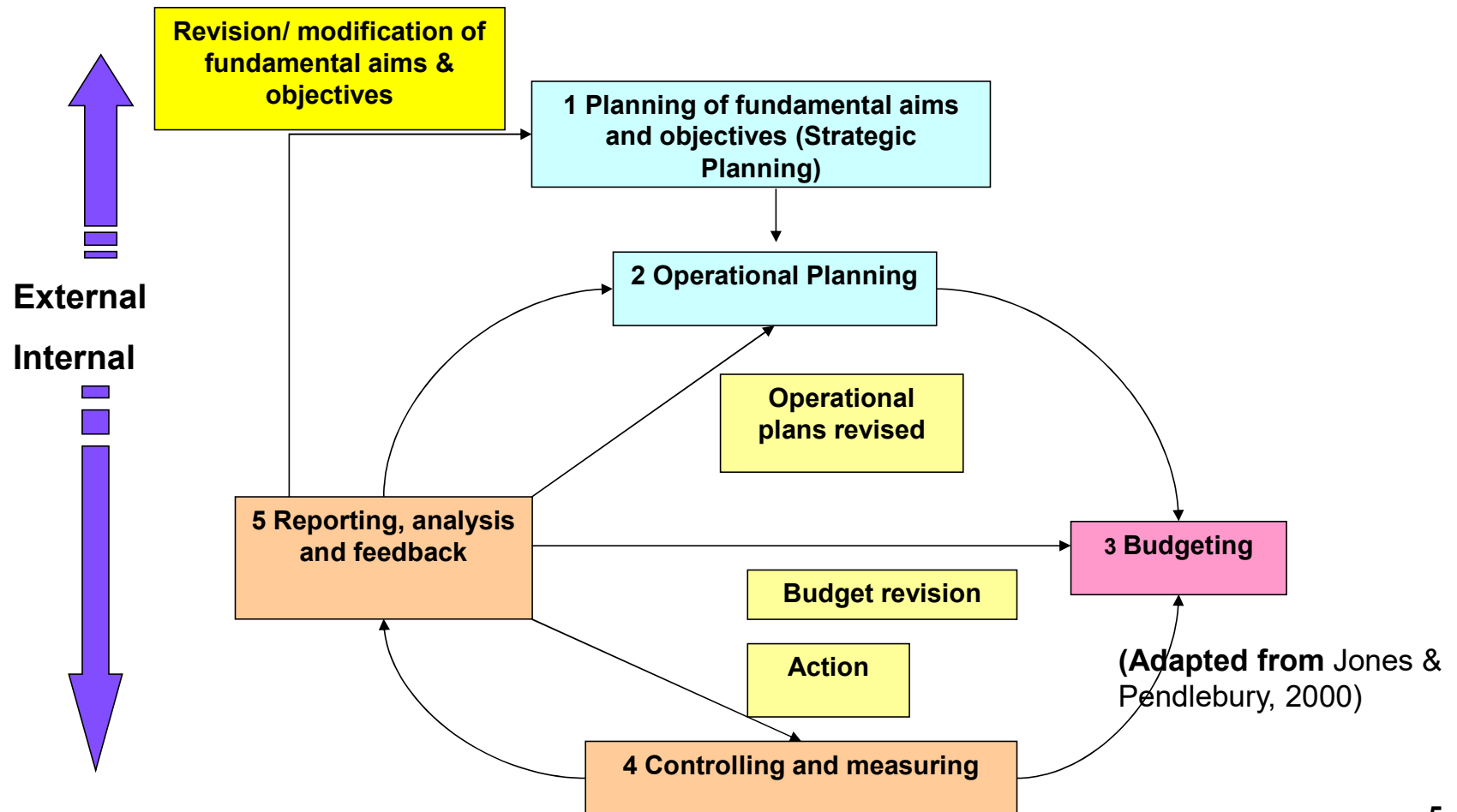
Budgetary Controls

BUDGET

- Budget is a **detailed plan** that shows the **financial consequences** of an organization operating activities for a **specific future period**.
- It acts as a **financial model** that summarizes future operations and is usually viewed as a core component of an organization's planning and control.
- Aim of budgeting process – to achieve **Value for Money** in utilization of public monies
- **VALUE FOR MONEY – EFFICIENCY, EFFECTIVENESS, AND ECONOMY.**



PLANNING AND CONTROL IN PUBLIC SECTOR ORGANIZATIONS



PLANNING AND CONTROL

Planning

- **Decisions** to pursue, develop, reject, undertake, delay, modify or to abandon certain activities of public sector organization

Strategic planning

- Planning to achieve the strategic and long-term objectives of the Public Sector Organizations (PSOs)
To achieve Visions and Missions of the PSOs

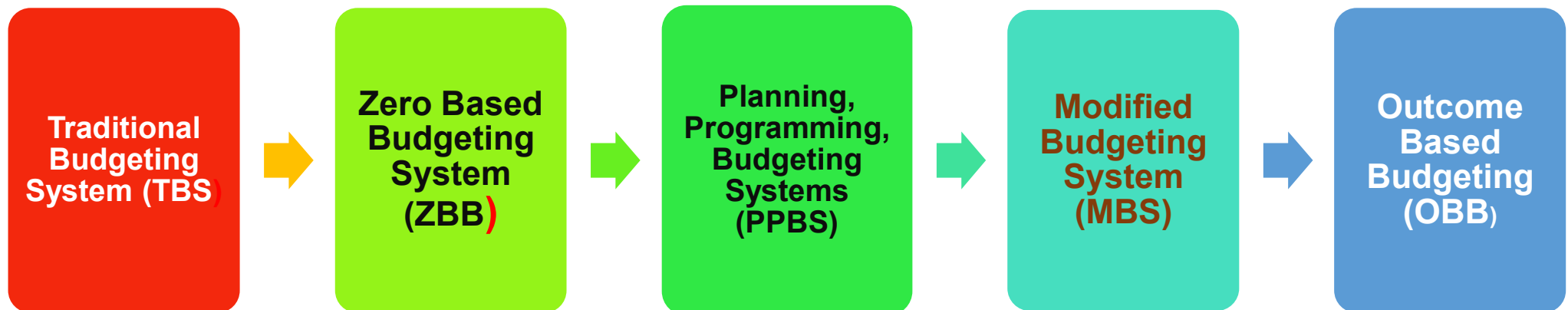
Operational planning

- Planning for short term action plans for one fiscal year needed to achieve the strategic objectives of the Public Sector Organizations
- Translating strategic planning into annual action plans

Control

- **Tasks** that ensure the planned activities are implemented, followed and the ultimate objectives are achieved

DEVELOPMENT OF BUDGETING TECHNIQUES IN PUBLIC SECTOR



Input -oriented

**Output & Impact-oriented
(Performance based budgeting)**



TRADITIONAL BUDGETING SYSTEM (TBS)



TBS is an “input oriented technique” – prior to 1969



Also known as “Line Item Budgeting” as it is based on line item expenditure and are expressed in terms of the Objects of Expenditures

Code	Description	Amount (RM)
10000	Emolument	150,000
11000	Salary	100,000
12000	Allowances	35,000
13000	Employee Provident Fund	15,000

Budget allocations:

Extrapolation

- Allocation based on past year spending levels

Incremental budgeting

- Adding allocation for inflation, effect of virements, increase in salary, one-off expenditures and new Programs or Projects

ADVANTAGES OF TBS



Simplifying budgeting process



Speed up budget assessment and evaluation – focusing on new activities



Incremental budgeting narrow down areas open to dispute.

LIMITATION OF TBS

Strategic goals of organization may not be achieved;

- Over reliance on past year spending

Focusing on financial accountability than advanced level of accountability.

Expenditure level as financial performance

- i.e .actual expenditure incurred vs budgeted expenditure and,
- little information on the effect, outcome and impact of programmes.

Zero Based Budgeting (ZBB)

ZERO BASED BUDGETING (ZBB)

The first application was in the USA in 1962.

Features:

- The preparation of budgets start from a zero base i.e. resources are not allocated based on previous year activities and expenditure levels
- Each activity and expenditure item need to be justified with new budget proposal.

Allocation of budget by Decision Package

Identification of decision units (responsibility centers)

Units in the organizations' hierarchy that prepare the budget and have these characteristics:

- a specific manager
- a well defined and measurable impact
- a well-defined and measurable objectives

Development of decision packages

identifying the alternative ways of performing the functions of decision units and to determine the effort for each of the alternatives

Review and ranking of decision packages

Apply the "bottom up " approach based on effectiveness

Advantages and Limitations of ZBB

Advantages

- ZBB requires all functions of an organizations be re-evaluated annually from a zero base;
- ZBB encourages the involvement of lower-level management in the budgetary processes (participative budgeting);

Limitations of ZBB

- Costly to implement – evaluating all activities annually is impracticable.

PLANNING PROGRAMMING BUDGETING SYSTEM (PPBS)

Launched in the USA in 1965

Adopted by Malaysian PSO in 1969

Objectives:

- to improve resource allocations
- Provides a **common framework** for the participants in the budgeting process

Covering operating budget and expenditures

STAGES IN PPBS

1). PLANNING - Identify and develop policy objectives

2). PROGRAMMING

3). BUDGET PREPARATION & ALLOCATION

4). PROGRAM EVALUATION

- **Assessment** of the relevance, results and impact of programs/activities for each public sector organizations.
- **Evaluation** of the financial & physical performance of the programs. Outdated activities should be considered for revision

2. PROGRAMMING STAGE

Identifying programs/ activities

- Involves the **selection of best feasible alternatives** for the purpose of achieving predetermined objectives and **reflecting it in programs**.
- Relevant performance indicator need to be developed covering key areas of the programme – qualitative and quantitative measures

A Program

- is a combination of resources and formulated to realize objectives and outputs.
- Example: Road and Bridges Program in Ministry of Public Works

Program structure:

- The process of breaking up program into its distinct activities and sub-activities which contribute to the achievement of objectives
- i.e Activity of Road and Bridges Program – Maintenance Service

ADVANTAGES OF PPBS

Promote clear lines of responsibility thus enhancing accountability

Promote efficiency and effectiveness of use of resources amongst public sector managers

Provides better planning and control mechanism for the Parliament to oversee executive functions

Provides a systematic method of performance evaluations – provides a management tool to public sector agencies, government and managers;

Assists public sector organizations in setting budget priorities between competing programs/activities

Implementation Problems OF PPBS

Lack of top and line management participation into budgeting process.

Wide spread of incremental budgeting - budget proposal was mainly prepared by Finance and Administrative Division- mainly based on the previous year spending

Limited financial autonomy for effective decision makings

The practice of 'gaming' by spending organisations

PPBS was not used as a management tool to achieve value for money
Problems in developing relevant performance indicators

A distinct dichotomy between financial management and operational matters – lack of involvement of management into budgeting process.

MODIFIED BUDGETING SYSTEM (MBS)

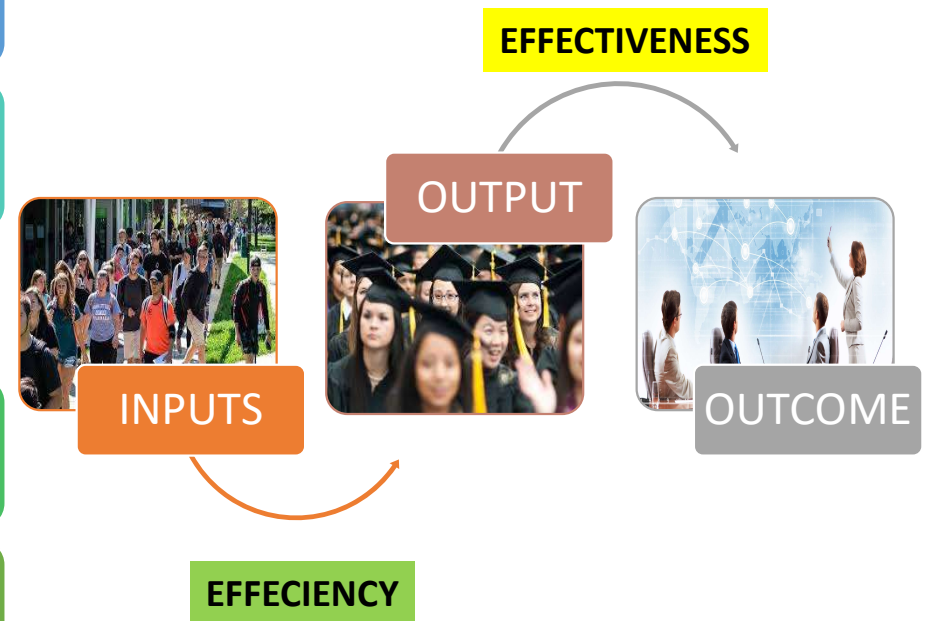
MBS is a modification of PPBS

Malaysian Public Sector environment:

- Introduced through Treasury Circular No.11/1988.
- 3 Ministries (MoH, MoPWU & MoW) were selected as a Pilot Project.

It focuses the relationship between **INPUT**, **OUTPUT** and **IMPACT** of the Program.

The MBS emphasizing on Value for Money with Accountability for Results



MODIFIED BUDGETING SYSTEM (MBS)-CONT'D

Objectives of the MBS



To **improve allocation of resources** to government agencies



To **improve the effectiveness and efficiency** of government programs/activities



To **strengthen mechanisms for accountability** of controlling officers – emphasizing on result based management

NEW REFORM MECHANISMS IN THE MBS

'Let managers manage' principle – in line with the spirit of freedom to manage to line managers

Contract and Accountable Management via Programme Agreement

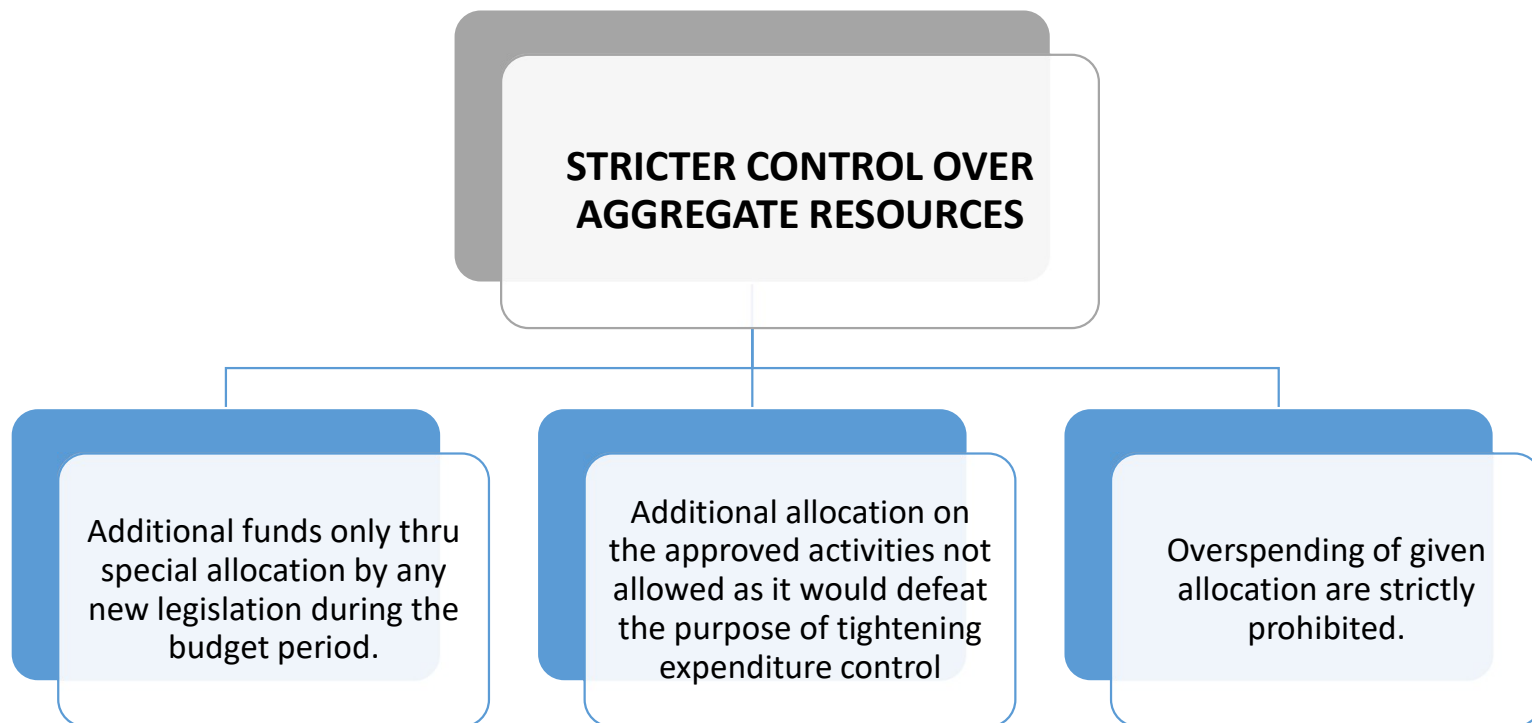
Focus on result based performance measurement and accountability

Fiscal control via Expenditure Target

PRINCIPLES UNDER the MBS



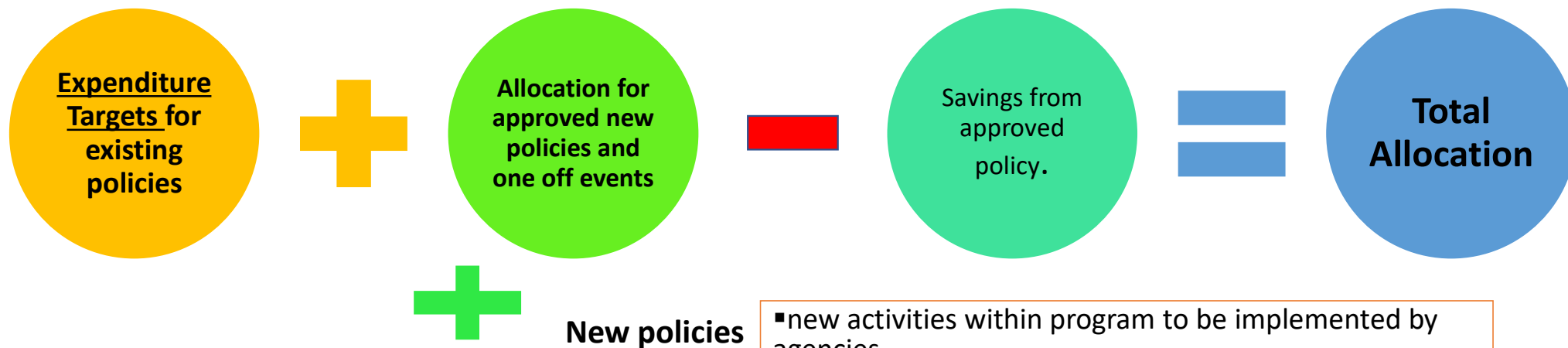
A MORE GENERALIZED APPROACH TO EXPENDITURE CONTROL – CONT'D



VIREMENT UNDER MPPB AND MBS, MEDICAL CARE PROGRAMME, MINISTRY OF HEALTH

Programmes	Activities and Virements under MPPB	Activities and Virements under MBS
Administration	General Patient Care 10000 20000 30000	General Patient Care 10000 20000 30000
General Health Services	40000 Psychiatry 10000 20000 30000	40000 Psychiatry 10000 20000 30000
Medical Care Services	Leprosy Services 10000 20000 30000	Leprosy Services 10000 20000 30000
Research, Development and Planning	Tuberculosis Services 10000 20000 30000	Tuberculosis Services 10000 20000 30000
Vote (Expenditure): 10000 Emoluments 20000 Supplies and Services 30000 Assets 40000 Permanent Charges	Medical Administration 10000 20000 30000 Virements only between 2000 and 30000 General Objects in the same activity	Medical Administration 10000 20000 30000 30000

TOTAL BUDGET ALLOCATION OF EACH PROGRAMME



Expenditure Target:

- base amount ("ceiling amount") set by the Treasury for each program
- fixed by the Treasury at the beginning of the budgetary process;
- a budget ceiling for an on-going programme
- cannot be exceeded when preparing for the budget proposal

- new activities within program to be implemented by agencies.

- eg. development of new posts, training for new activities etc.

ACCOUNTABLE MANAGEMENT - PROGRAM AGREEMENT (PA)



Specifies the level of achievement (performance) of funds allocated for a particular program/activity.



Mechanism to match accountability with greater budget authority



**A contract document between
controlling officers and the Treasury**

ITEMS IN PROGRAMME AGREEMENT

1. Purpose: B52
2. Agency: Ministry of Public Works
3. Program: Road and Bridges
4. Activities: Maintenance Service
5. Code: 020400
6. Source of Authority: Federal Govt Min Orders 1995/ PSD letter - ref
7. Objectives: To ensure Federal roads and bridges are constantly maintained..
8. Customer: Road Users
9. Policy/Needs Analysis: roads needs to be maintained to ensure maximum benefits
10. Functions: Task to carry out to produce outputs – Normal Maintenance (Patch up holes on the roads/ Grass cutting), Scheduled Maintenance (Road resurfacing, Road widening)

11. Resources:

- Expenditures: by General Objects/ Functions/Post Categories (Higher Mgt, Professional Group, Support Group)

12. Output Specifications:

- Function: Patch up holes on the road:
- Quantity – Length of road patched (km)
- Quality – Length of roads patched following the stipulated standards
- Timeliness - % of km of roads patched following the schedule
- Unit cost – cost per km of patched roads

13. Impact Indicator:

- Decline in the rate of complaints by road users, decline in rate of road accidents.

14. Program Evaluation:

- When, Scope of evaluation and methodology, Internal performance audit?

OVERALL BENEFITS OF THE MBS

Greater involvement of top management in the budget management processes.

- Greater involvement of top management was due to:
 - MBS's customer orientation focus
 - Controlling effect of Expenditure Targets – Budget proposal become Planning Document.
 - Link between budgeting and planning.
- With greater involvement of top management led to:
 - Improved communications of top management priorities to lower managers and staff
 - Enable Controlling Officer to play a more active role in budgeting and to use it as management device and tool.
 - Integrating operational and financial matters.

Greater participation of line managers in the budget preparation processes

- was due to their abilities to priorities budget allocation to match their managerial and operational needs.
- Greater involvement of line managers improve budgeting process
- Increase the opportunity for departments to use strategic planning as the basis for budget preparation.
- Minimise gaming – budgetary slack

LIMITATIONS OF THE MBS

The MBS did not address the following financial management problems which affect operational efficiency and effectiveness:

Annuality

Shortfall of allocation

Delays in distribution of allocations

Lack of integration between development and operating expenditures to form a coherent and comprehensive budgeting system

The principle of “let managers manage” is not fully supported

• WEAKNESS OF PROGRAMME AGREEMENT AS ACCOUNTABILITY MECHANISM



Lack of support from top management of spending organisations – as no effective monitoring system to achieve the performance targets.



Blame on the Treasury official's failure to enforce the performance requirements – The Budget Review Officer – performance information - lack of reliability.



Performance Targets – not part of performance and promotional assessment of the controlling officers and their representatives.

Budgetary Control

Budgetary Control

Objectives:

to ensure that all expenditures are in line with the budgeted amounts, and
the level of activities envisaged in the budget are achieved

Activities:

Record keeping of expenditures
via Vote Books

Develop relevant Expenditure Reports including reports as required by the Treasury Circulars

Reporting, analyzing and providing feedbacks.

Similar to preparing and reporting of Management Accounts as in the Private Sector Entities

Features of effective budgetary control

Collection of data (inputs and outputs) is initiated at the lowest level of activity (i.e. cost centres/responsibility centres)

The structure of responsibility centres corresponds with the programme or activity structure of the government agencies

Information on budget position must be relevant and timely as well as sufficient (include causes of variances)

Controllable and non-controllable expenditures can be categorized separately if practicable

Responsibility Centres for Budgetary Control

The manager of the centre is the budget holder

The manager is accountable for performance of the budget

With financial performance, non-financial performance indicators should also be developed & assigned to the responsibility centres:

Types of Responsibility Centres:

- **Cost Centre**
- **Revenue Centre**
- **Profit Centre**
- **Investment Centre**

BUDGETARY CONTROL – COST CENTRES

Most common type of responsibility centers in Public Services

Ministries, Departments and Statutory Bodies generally hold cost centre status

With budget allocation provided for inputs, performance must consider both financial and non financial performance targets

The information on costs helps to determine unit cost of products, services or activities

Outputs exists but measurable in physical but not monetary terms

Unit cost of products and services – useful for efficiency consideration

With measureable outputs – budget allocation should be based on planned level of activity

- (i.e length of federal road (in km) under maintainance , number of students per university)

Contracting out services to private sectors

- need to consider non financial factors – default or bankruptcy of suppliers
- i.e catering, maintenance, repairs etc

BUDGETARY CONTROL – PROFIT/INVESTMENT CENTRES



Profit or Investment centres at Government level or at Agencies level both Federal and State Governments.



I.e GLICs, GLCs, Subsidiaries of Statutory Bodies

- **Petronas, TNB, Sime Darby, PNB, Bank Islam**



Sharing characteristics of private companies with Government ownerships and governance



Competitive advantages to secure public sector procurements



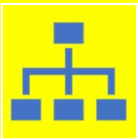
Twin pillars – social objectives and profit objectives

RESPONSIBILITY OF BUDGET MONITORING WITHIN ORGANISATIONS



Mainly by top management

Focusing on strategic direction



Combination between Top management and Line Managers, or

To align between strategic and operational priorities



Mainly Line Managers

Close to target customers' problems and needs

BUDGET-EXPENDITURE REPORT TO PARENT MINISTRIES AND THE TREASURY

Expenditure report is submitted to Parent Ministry and the Treasury periodically e.g.Monthly

Reports prepared and submitted via iFGMAS – Report A441

Budget Expenditure Report – Expenditure Performance monitoring

DIFFERENCES BETWEEN DEPTS AND SBS IN FUNDING PROCEDURES

DEPARTMENTS

- Receive budget allocations in the form of Warrants
- Budget warrants distributed via Parent Ministry
- Controlling officers are Chief Secretary of Parent Ministries
- Accounts are prepared by Accountant General Department*
- Cannot offset expenditure against revenue collected

*except for Self Accounting Bodies

STATUTORY BODIES

- Receive budget allocations in the form of Cash Grants
- Grants directly transferred from the Treasury to SB's Bank Account
- Controlling officer is the CEO of SBs
- Self Accounting Body status
- Able to offset revenue collected against expenditure

- Conclusion & way forward:
 - Government budget allocations in critical areas for socio economic development of the country
 - Budget for:
 - Human capital development
 - Digital Technology
 - Investment in People – Inclusiveness and Unity
 - To enhance Governance in Public Sector organizations with **the SDGs agenda**

THE END