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Programme budgeting for South African local authorities

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treated as something integral with policy - something which cannot be dissociated from policy. Finance is not to be relegated as something troublesome and inconvenient which one tries to avoid thinking about until the policy has been settled. (1) The system of appointing accounting officers is also the cornerstone of financial administration at central government level in South Africa. (2)

Dualism in financial administration has also caused problems at local government level because of the special functions of the finance committee. (3) There has been a tendency to overcome the difficulty in this sphere by appointing one executive committee to consider both policy and finance. This subject is discussed more fully below. (4) Dualism in the present context has given significant impetus to the demands both for more enlightened financial administration and changes in budgetary practices.

Preoccupation with financial control led to a system of governmental accounting which ensured not only a strict system of parliamentary control over expenditure, but a form of public accounts which ensured this control. There had to be clear responsibility and cost centres if

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1. Sir Edward Bridges, The Place of Finance in Public Administration, p. 15.

2. South Africa, Exchequer and Audit Act No. 23 of 1956, Section 1; Vincent Aubrey Rogers, The Constitutional Control of Public Finance in South Africa, Chapter VI; F.S. Steyn, I.M.T.A. - S.A. Conference Proceedings 1957, pp. 112-121.

3. Dr. A.H. Marshall, Financial Administration in Local Government, Chapter III.

4. See Chapter VII, Section 6.

officers were to be held accountable for expenditure. Treasury control over items of expenditure became the basis of the 'candle ends' accounting system of the nineteenth century era. (1) There have been gradual and persistent changes in this rigourous attitude in favour of the more enlightened aim of ensuring value for money expended. However, concerted action in this field and in the forward planning of public expenditure did not take place until after World War II.

The extent to which the form of public accounts and budgets changed in consonance with new attitudes to public finance will now be discussed.

3 Public Expenditure Classification since Adam Smith

Several economists since Adam Smith, even as late as the nineteen fifties, have set out their views on the 'classification' of public expenditure, yet in many instances these classifications amounted to little more than lists of recommended state activity, grouped in various ways. Their composition was influenced by the views of the authors on public finance generally and by their attitudes towards the desirable scope of State activity in particular. Adam Smith's 'expences of the sovereign or commonwealth' was not a classification but a list in narrative form of desirable State functions, aimed at restricting Government activity. (2) John Stuart Mill divided

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1. Gladstone said that the saving of candle ends was very much the measure of a good Secretary to the Treasury.

2. See page 7, f.

government functions into 'necessary' and 'optional'. (1) Gustav Cohn proposed the following grouping of public expenditure: (a) that solely for the benefit of an individual for which he pays (b) that benefiting an individual, but for which society accepts responsibility (c) that which aids the handicapped (d) that which confers a common benefit on all. (2)

Although Bastable and Shirras dealt at length with the subject of public expenditure, their contributions were mainly descriptive of the various types of public expenditure and they did not discuss principles of classification. Bastable distinguished between normal or ordinary expenditure and abnormal or extraordinary expenditure. For example, annual expenditure on military and naval forces, the cost of justice and education, would be normal. The cost of war or expenditure for the relief of distress in a sudden emergency would be abnormal. (3) There is a similarity here with the present day differentiation between current and capital expenditure. Bastable also distinguished between productive or economic expenditure (e.g. a gas works) and unproductive or uneconomic expenditure (e.g. Houses of Parliament). (4) It is common today to refer to these categories as remunerative and unremunerative. Shirras stated that public expenditure

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1. Quoted by C.F. Bastable, op. cit. p. 47.
2. Encyclopaedia of the Social Sciences, Vol. 6, p. 9.
3. C.F. Bastable, op. cit. pp. 130-1.
4. ibid. p. 134.

should be divided ideally into two main classes (a) primary, which included defence, law and order, civil administration and debt services (b) secondary, which included social services, public undertakings and miscellaneous general expenditure. (1)

Dalton referred to these 'classifications' as catalogues, and set out his own catalogue of public expenditure thus: (1) Defence, law and order (2) Administration of justice (3) Maintenance of the Head of State and the diplomatic service (4) Civil service (5) Debt charges (6) Fostering commerce and industry (7) Social expenditure. He referred to this as 'an empirical catalogue rather than a scientific classification which is convenient rather than strictly logical'. (2)

It is not surprising that nineteenth and early twentieth century writings produced so little in classification principles. Preoccupation with financial control, albeit for good reasons, led to a form of public accounts which helped to keep people's fingers out of tills but discouraged economic analysis and effectively kept economists and budgetary analysts at bay. Those attempts at classification which were made, were made as ad hoc studies, independent of the accounting records. This has been a common feature in public finance. Economists made up 'catalogues' of expenditure, but the President of the U.S.A., Ministers of Finance and Chairmen of Finance Committees in their budget statements gave separate sum-

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1. G. Findlay Shirras, op. cit. p. 102.

2. Hugh Dalton, op. cit. pp. 194-5.

maries of expenditure proposals because the accounting classification would be unintelligible to the populace. There have been many variations in these summary statements. Some have followed the patterns noted above and drawn a distinction between expenditure which is optional and obligatory, exhaustive and non-exhaustive, normal and abnormal, remunerative and unremunerative. Others separate expenditure on general government from that on enterprises. Others again show a preference for a functional instead of a departmental classification.

The significance of these ad hoc summaries lies in the fact that they became necessary because the public estimates and accounts as recorded conveyed little information on the functions of government, but a great deal on the minutae of expenditure. In 1955 the Editor of 'The Accountant' stated, 'Most people never see the published accounts of their local authority and if they did, they would most likely be little the wiser'. Even accountants find the voluminous extracts, which record minutely but rather unimaginatively the stewardship of Councils and Committees, difficult to follow. (1) The formidable gap between the formal accounting records of governments and the functional information found in budget speeches still exists. It is held by many to be one sound reason why traditional financial classification should be replaced by a programme classification. Public accounts have from the time of Adam Smith had one

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1. The Accountant, 16th July, 1955, p. 57.

main aim, the detailed control over every item of expenditure. A straightforward financial line-item system of classification has served this end admirably, although it has failed in other directions.

4 The Emergence of Classification Principles

The considerable growth of public expenditure in the twentieth century has already been mentioned. (1) Growth, however, was always expressed in aggregative terms with little attention to the details of expenditure. Several writers stressed the futility of considering only total outlays without examining the detailed amounts assigned to expenditure heads. (2) Under the impact of the macro-economic analyses of Keynes there arose a demand for social accounts from which the economic significance of expenditure could be derived. Social accounting and sector accounting are, however, clearly beyond the scope of the present study. Of greater relevance are those classification principles which assist directly in a functional analysis of government spending. In 1927 Guest drew attention to the inadequacy of accounting records for a proper analysis of public expenditure. (3)

The realisation grew that the only satisfactory method of analysing public expenditure in order to derive principles of classification, was to seek the source

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1. See page 16.
2. For instance, G. Findlay Shirras, op. cit. p. 47.
3. Harold W. Guest, op. cit. pp. 170-1.

of expenditure, that is the individual amounts spent on salaries, stationery and so on, and then embark on a detailed re-classification to serve the particular system desired. Such a procedure is made necessary by the fact that traditional budgetary classifications have been based on departments and objects of expenditure and not on functions and activities. In the nineteen thirties several writers stressed the advantages of a functional classification over other forms of classification, and the advantages and disadvantages of the different methods of classification came to be discussed. A.E. Buck, for example, discussed at some length the characteristics of five different methods of classification, (a) functional (b) organisational units (c) objects (d) character and (e) funds. (1) These five methods were generally accepted and used by later writers as a basis for discussion. (2)

One clear theme ran through these discussions on classification methods - the superiority of the functional classification over others based on organisational units and objects of expenditure. The functional classification assisted in revealing what the government hoped to accomplish whereas the primary purpose of other systems was to ensure accountability or to provide a convenient classification of expenditure from the point of view of choosing suitable objects for debate in the

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1. A.E. Buck, Budgets in Governments today, pp. 169-170.

2. See for instance, Burkhead, op. cit. Part II, Chapter 5; Harold M. Groves, Financing Government, p. 553.

Committee of Supply. (1)

The implementation of functional classifications has been slow notwithstanding its endorsement in principle The Crick Committee in Great Britain in 1950 endorsed the continuance of the traditional subjective form of accounts. (2) Although the Hoover Commission recommended a form of performance budgeting in the U.S.A. in 1949, a formal appropriation structure continued to be used. (3) Public accounts generally have remained on the traditional financial basis and measures for budgetary reform along the lines of programme budgeting have tended to be parallel developments without a great deal of change in accounting systems.

Functional budgeting was propounded with increasing intensity after 1950, culminating in the more comprehensive approach of performance and programme budgeting. One of the main advantages claimed for programme budgeting is the improvement it brings in the decision-making process. This does not necessarily require a change in the form of financial accounts. Several writers have suggested, for instance, that existing classifications should be retained and other ad hoc budgetary statements used for decision-making. Others again recommend a fully integrated system. It is thus desirable to examine the nature of existing classification systems.

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1. Ursula K. Hicks, Public Finance, p. 104.

2. United Kingdom, Final Report of the Committee on the form of Government Accounts, par. 112-116.

3. See page 2.

5 The Main Systems of Classification

There are two main types of classification which are referred to hereunder as the subjective and functional systems.

The subjective system of classification evolved in response to demands for the supremacy of the legislature. It facilitates legislative control over departmental spending because there is direct control over resources (input). Heads of departments can be held liable for expenditure under their control and there are clear responsibility centres. Classification is based on services and goods to be acquired e.g. salaries, stationery. The system is referred to in American sources as 'classification by objects of expenditure'. It was introduced in the U.S.A. as a result of the Taft Commission's report in 1912, and Burkhead states that its acceptance was the direct product of an era when both legislators and the citizenry at large were filled with distrust for administrators. (1) The system is also referred to as the line-item system implying the specification of objects of expenditure in great detail and giving rise to very large and cumbersome budgets. (2) Side by side with subjective budgeting, an accounting classification on organisational or departmental lines became entrenched to facilitate financial accountability to the legislature. It was logical that classification should be built around organisational entities and accounting officers. Financial control over appropriations is greatly increased in

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1. Jesse Burkhead, op. cit. pp. 127-8.
2. ibid. p. 10 f., 128

this way and it becomes straightforward, for example, to ensure that the sum allocated for salaries in a particular department is not exceeded. Few will deny that the introduction of uniform subjective classification within clearly defined departmental units was a great technical step forward. The system has also been suitably described as an object-cum-organisation classification. (1)

This brought in its train a system of centralised Treasury control which met with strong popular approval, but which brought criticism from economists and public officers. It failed, they said, to provide information on what the government is actually doing and what it gets for the money spent. (2) Ursula Hicks stated that it is adapted to 'reveal dishonesty, but not incompetence in the public service'. (3) Opposed to these criticisms are the strongly held opinions of many accountants and financial administrators who desire no fundamental changes in classification, with the corollorary that any efficiency tests can be undertaken as separate investigations outside the formal public accounts. (4)

Functional classification, unlike subjective classification, seeks to show what a government is doing in

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1. United Nations, A Manual for Programme and Performance Budgeting, op. cit. p. 1.

2. ibid.

3. Ursula K. Hicks, op. cit. p. 106.

4. Sir Edward Compton, 'Control of Public Expenditure', I.M.T.A. - U.K. Conference Proceedings 1960, pp. 221-3; Sir Frank Tribe, 'Parliamentary Control of Public Expenditure', The Accountant, 23rd January 1954, p. 89.

terms of broad programmes. It is concerned more with output in terms of contributions to predetermined objectives than with resource input. The system is also referred to as objective classification. (1) It is possible to have a functional classification of major programmes superimposed on subjective departmental accounts. This is the basis of the ad hoc budget summaries mentioned above, and the older catalogues of expenditure. (2) The interest in functional budgeting which was intensified in the nineteen thirties and continued after World War II, culminated in the nineteen fifties and sixties in a strong demand for a revision of classification principles. Expenditure should be classified according to major objectives like health, defence and education rather than on a basis of salaries, maintenance, and debt charges aggregated into departmental totals. The fact that ad hoc functional classifications could be derived from an otherwise subjective form of accounts no longer satisfied the critics, who continually referred to the Hoover Report which had recommended that the whole budgetary concept of the Federal Government should be refashioned, by the adoption of a budget based on functions, activities and projects. (3) This report is important in the present context, because from the time of its publication reference was made more to performance and programme budgeting

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1. E.A. Collins, 'The Functional Approach to Public Expenditure', Public Administration, Autumn 1966, p. 307.

2. See pp. 49-50.

3. See page 2.

and less to functional budgeting even though the terms 'functional' and 'objective' classifications continued to be used.

The classification principles discussed above have significant implications for classification in local government accounts, especially in relation to any contemplated change-over to programme budgeting. Can a system of programme budgeting be introduced purely as a decision-making model, leaving a system of subjective classification basically unaltered? An answer to this question must be delayed until the real nature of programme budgeting has been studied in relation to local budgeting. As far as the principles of classification are concerned, it is appropriate to end with a statement of those which will influence later discussion on local accounts.

6 Important Principles relating to Local Government Budget Classification

The irrelevance for local government of some budgetary theories relating to the national household have already been noted, particularly in the sphere of compensatory finance. (1) To an even greater degree, some of the principles relating to national classification have little applicability in the sphere of local government.

Firstly, there is a fundamental difference in the basis of accounting. National accounts are on a cash basis in most countries of the world. The Exchequer Account is a receipts and payments account and no balance sheet

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1. See Chapter 3, Section 2.

is prepared. (1) Most accounts of local authorities, however, are prepared on an income and expenditure or accrual basis; balance sheets are prepared. Only the smaller local authorities and local authorities in some developing countries prepare accounts on a receipts and payments basis. The accounts of local authorities generally are more akin to commercial accounts than to central government accounts, notwithstanding a few important differences. (2) The consequence of this is that a change to functional classification is more straightforward for local government.

Secondly, local government is consequent upon the close settlement of people in communities and this gives rise to what Laski calls 'a consciousness of common purpose and common needs by which they are differentiated from inhabitants of other areas'. (3) The satisfaction of social wants is not as complex as it is at national level, and the problems of determining community consensus and estimating benefits are not as difficult. The ramifications of determining objectives in the U.S.A. Defence Department, as described by Novick, would certainly not be manifest in a local fire service. (4) Thirdly, because of the distinguishing features mentioned in the preceding paragraph, the accounting records and budgetary

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1. Vincent Aubrey Rogers, op. cit. p. 1; Ursula Hicks, op. cit. p. 105.

2. J.W. Cowden, op. cit. p. 181; Ursula K. Hicks, Development from Below, p. 371.

3. Harold J. Laski, A Grammar of Politics, p. 411.

4. David Novick, op. cit. Chapter 4.

statements of local authorities have tended to follow, at least in their major headings, a far greater functional pattern than has existed in national accounts. This is a logical consequence of geographically delimited areas with common interests, where it is not difficult to identify municipal departments with functions, nor to take the further step of setting up programmes and objectives. This aspect will be elaborated at a later stage when local accounting systems and budgets are considered. It is sufficient at this stage to mention that financial statements in local government do not follow the rigid object-cum-organisational pattern of most central government accounts.

CHAPTER V : THE RISE OF PROGRAMME BUDGETING

Programme budgeting, as known today and as being implemented by various government bodies throughout the world, is a comparatively recent development in the history of budgeting. It is a product of the nineteen sixties although its conceptual origins go back much further. They can be perceived in the strong predilection for functional budgeting in the early twentieth century and in the developments towards functional classification in the nineteen twenties and thirties. (1)

Programme budgeting also has a link with the economics of Keynes in the nineteen thirties. His general theory was a major departure from the restrictive assumptions of classical economics, for he set out to discover the real forces which determined the employment of resources. (2) Part of the conceptual background of programme budgeting can also be traced to the theories of functional finance propagated by economists in the nineteen forties. Lerner stated, for instance, that fiscal policy should be undertaken only with a view to the results on the economy and not to any established traditional doctrine about what is sound and unsound. (3) These theories generated a state of affairs which impelled changes in the traditional

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1. Chapter III, Section 4.

2. J.M. Keynes, The General Theory of Employment Interest and Money, op. cit. p. 3.

3. Abba P. Lerner, 'Functional Finance and Federal Debt', Readings in Macro-Economics, M.G. Muller, p. 353.

budgetary outlooks, and culminated in a widespread enthusiasm for programme budgeting in the nineteen sixties.

The newer forms of programme budgeting embrace certain components not previously envisaged in the concept of budgeting, such as planning, programming and systems analysis. These are manifested in the use of the acronym PPBS (Planning Programming Budgeting Systems) as an alternative name for programme budgeting. There has, in fact, been a bewildering use of various technical and accounting terms in association with programme budgeting, particularly in relation to the use of the term 'performance budgeting' in the post-war years. As an illustration of this the following sentence from Burkhead is quoted: 'In many governments what came to be called a project budget or a program budget is similar to what is now termed a performance budget'. (1) Some writers used the terms 'performance budgeting' and 'programme budgeting' synonymously while others reserved the use of the latter term to indicate a comprehensive system of planning and budgeting. Some of the semantic confusion will be removed by the record of developments in succeeding paragraphs. The use of the term 'performance budgeting' will be restricted to the period 1946 to 1955 when it was most in use and the term 'programme budgeting' will be used with reference to any of the comprehensive systems which emerged in the nineteen sixties. It was a term popularised by Novick and it implies a comprehensive approach - planning, analysis, budgeting and the many management techniques

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1. Jesse Burkhead, op. cit. p. 134.

which go with these.

Many modern writers prefer the term PPBS, on the grounds that it is more indicative of the multi-purpose nature of the newer budgetary concept. However, it should be noted that none of the individual components of PPBS is new. What is new is the bringing together of all in a complete system with a view to improving decision-making. The term 'programme budgeting' will be used in the remainder of the present study as meaning a comprehensive system of budgeting embracing Anthony's three major components - strategic planning, management control and operational control. (1)

1 Trends towards Programme Budgeting prior to World War II

As already noted, a national budgeting system was not introduced in the U.S.A. until the passing of the Budget and Accounting Act, 1921. (2) This act was virtually the end product of the Taft Commission's report and although its main recommendations were on constitutional issues, it made certain recommendations with regard to functional budgeting. It recommended, for instance, that budget expenditures should be classified in accordance with activities undertaken by departments and agencies. (3) For political reasons no action was taken on the main recommendations until 1921, and no action at all was taken

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1. Robert N. Anthony, Planning and Control Systems, pp. 16-18.

2. Chapter III, Section 1.

3. U.S.A., Commission on Economy and Efficiency, 1912,

to adopt the recommended functional classification for major categories of expenditure. Classification of expenditures remained on the traditional object-of-account basis.

In several of the writings of the nineteen twenties there were references to the need for a functional approach to fiscal budgeting, and these continued into the nineteen thirties. Although no positive action was taken by the Federal Government to introduce a functional classification, the Tennessee Valley Authority introduced a functional system in 1933 which was of great importance in the evolution of programme budgeting. The budget was divided into major programmes, sub-programmes and activities. (1) Furthermore, the activity accounts were integrated with the accounting system, an important step forward in both classification and budgeting.

In the sphere of local government, some American local authorities displayed an interest in functional budgeting early in the twentieth century. The New York Bureau of Municipal Research published a sample programme memorandum in 1907 containing functional accounts and data for the city's health department. (2) From 1913 to 1915 the same Bureau devised functional accounts for the Borough of Richmond, for street cleaning, sewerage and street maintenance. Each account was divided into approximately ten sub-functions called 'work classifications'.

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1. Jesse Burkhead, op. cit. pp. 158-162.

2. Allen Schick, 'The Road to PPB : The Stages of Budgetary Reform' in Robert T. Golembiewski (Editor) Public Budgeting and Finance, p. 523.

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