

https://dspace.org/

# Programme budgeting for South African local authorities

**Cowden, John Williams**

**2015-02-13**
http://hdl.handle.net/10539/16975

Downloaded from a DSpace repository. https://dspace.org/

# PROGRAMME BUDGETING FOR SOUTH AFRICAN LOCAL AUTHORITIES

John Williams Cowden

A Thesis Submitted to the Faculty of Commerce
University of the Witwatersrand, Johannesburg
for the degree of Doctor of Philosophy

Johannesburg 1973

## ABSTRACT

The scarcity of resources relative to social wants leads to the allocation function of economics, which in the private sector of the economy is accomplished through a market mechanism and in the public sector by means of government budgeting. One noteworthy feature in the history of public finance up to the twentieth century was its indifference to public expenditure problems in general and budgetary choice in particular. This factor, together with a growing popular demand for probity in public spending, led to the entrenchment of rigorous classification principles which satisfied the needs of accountability yet failed to provide a satisfactory framework for decision-making and economic analysis.

The extraordinary growth of governmental activity in the twentieth century engendered a need for better management and planning of public expenditure. Economic analysis was applied firstly in macro-economic fields under the impact of Keynesian theories, and after World War II its use was directed to the micro-analytical fields of social choice, with a view to finding an answer to the question, On what grounds shall expenditure A be increased and expenditure B decreased?

The rise of programme budgeting was to a large extent a response to the desire for more rationality in budgetary choice. The system is also referred to as PPBS (planning programming budgeting systems). It is a comprehensive management procedure having as its main focus the integra-

tion of planning and budgeting. Its methodology entails the identification of objectives and the programmes which will best assist in fulfilling these objectives, the development of alternative means of achieving objectives, the selection of criteria to measure the effectiveness of programmes, and a multi-year projection of data.

The programme budgeting system which was introduced by economists in the U.S.A. Department of Defence in the early nineteen sixties has been used as a model by many other public institutions. In the field of local government, particularly in the U.S.A., programme budgeting systems are being increasingly implemented. In South Africa, progress has been slow.

From the experience gained by local authorities in other countries and from experiments conducted in the course of the present study with regard to the adaptation of classification and budgetary principles to the requirements of programme budgeting, the conclusion is reached that a suitable system could be introduced in the sphere of South African local government. It should be implemented preferably on a selective rather than a comprehensive basis, involving firstly the identification of objectives and the optimum programmes to fulfil such objectives, secondly the integration of financial and programme budgets, and thirdly the introduction of in-depth analysis and multi-year planning.

The successful introduction of programme budgeting depends as much on a satisfactory conceptual approach as on the adoption of recommended budgetary formats. The system does not dispense with the need for value judgment,

yet it renders a great deal of assistance to the decision-maker by exposing choices in a more logical manner. It should be seen as a valuable tool of management rather than as a substitute for the policy-making process.

There has been a long tradition of departmentalism in local government which has precluded an approach to the management of the whole enterprise through an identification of broad community goals. Programme budgeting not only contains the elements for overcoming some of the irrationality in decision-making but provides a base on which a system of corporate management could be established.

CONTENTS


| | | Page |
|---|---|---|
| CHAPTER I | : INTRODUCTION ..... | 1 |
| CHAPTER II | : THE CHANGING EMPHASIS IN THEORIES OF PUBLIC EXPENDITURE ..... | 6 |
| | 1 The Eighteenth and Nineteenth Centuries ..... | 6 |
| | 2 The Marginal Concept of Public Expenditure ..... | 10 |
| | 3 The Theories of Public Expenditure ..... | 12 |
| | 4 Public Expenditure and Welfare Economics ..... | 14 |
| | 5 The Gap between Expenditure Theory and Practice ..... | 16 |
| CHAPTER III | : EVOLUTION OF BUDGETARY CONCEPTS ..... | 19 |
| | 1 Brief History of Budgeting ..... | 19 |
| | 2 Public Budgeting and Compensatory Finance ..... | 22 |
| | 3 Private Wants and Social Wants . | 24 |
| | 4 The Theory of Social Choice .... | 28 |
| | 5 Theories of Budgeting ..... | 32 |
| CHAPTER IV | : BUDGET CLASSIFICATION ..... | 41 |
| | 1 Brief History of Public Accounts | 42 |
| | 2 Control of Public Expenditure .. | 44 |
| | 3 Public Expenditure and Classification since Adam Smith ..... | 48 |
| | 4 The Emergence of Classification Principles ..... | 52 |
| | 5 The Main Systems of Classifications ..... | 55 |
| | 6 Important Principles relating to Local Government Budget Classification ..... | 58 |

CONTENTS (cont.)


| | | Page |
|---|---|---|
| CHAPTER V | : THE RISE OF PROGRAMME BUDGETING ..... | 61 |
| | 1 Trends towards Programme Budgeting prior to World War II ..... | 63 |
| | 2 The Post War Period to 1960 .... | 67 |
| | 3 Development in U.S.A. after 1960 | 73 |
| | 4 Development in the United Kingdom after 1960 ..... | 79 |
| | 5 Development in other Countries . | 85 |
| | 6 Conclusion ..... | 89 |
| CHAPTER VI | : THE TRANSITION FROM FINANCIAL TO PROGRAMME BUDGETING ..... | 91 |
| | 1 Conceptual Differences ..... | 92 |
| | 2 The U.S.A. Department of Defence Model ..... | 95 |
| | 3 Limitation of Study to Local Government ..... | 99 |
| | 4 Illustrations from Municipal Budgets ..... | 101 |
| | 5 Institutional and Procedural Differences ..... | 104 |
| | 6 Concluding Statement on Dissimilarities ..... | 107 |
| CHAPTER VII | : BUDGETARY THEORY AND PRACTICE IN SOUTH AFRICAN LOCAL AUTHORITIES ..... | 108 |
| | 1 Legislative Control over Local Budgeting ..... | 110 |
| | 2 Legislative Control over Form of Accounts ..... | 114 |
| | 3 Standardisation of the Published Accounts of Local Authorities .. | 116 |
| | 4 The Separation of Current Expenditure and Capital Expenditure . | 119 |
| | 5 Classification Principles in the Current Expenditure Budgets of Local Authorities ..... | 123 |
| | 6 The Institutional Framework .... | 129 |

CONTENTS (cont.) Page

7 Adequacy of South African Local Accounting and Budgeting Systems for Programme Budgeting ... 133

CHAPTER VIII : A PROGRAMME STRUCTURE FOR SOUTH AFRICAN LOCAL AUTHORITIES ..... 135

1 The Programme Structure in Concept ..... 137

2 The Functions of Local Authorities in South Africa ..... 145

3 The Formulation of Major Objectives ..... 155

4 The Development of Lower Level Objectives ..... 158

5 The Determination of Programmes and Activities ..... 162

6 Conclusions on the Programme Structure ..... 167

CHAPTER IX : ESTABLISHING THE COST OF PROGRAMMES . 170

1 Availability of Cost Data in Existing Records ..... 172

2 The Inadequacy of Existing Budget Formats for Cost Analysis .. 174

3 The Determination of Programme Costs ..... 177

4 Comparison of the Old and New Formats ..... 179

CHAPTER X : PROGRAMME ANALYSIS ..... 183

1 The Rôle of Analysis in Programme Budgeting ..... 184

2 Analytical Techniques ..... 189

3 Analysis and Synthesis ..... 191

4 Analysis in Practice ..... 193

5 The Measurement of Output ..... 197

6 Conclusion ..... 208

CONTENTS (cont.) Page


CHAPTER XI : THE INTEGRATION OF PLANNING AND BUDGETING ..... 210

1 Developments in the Field of Financial and Economic Planning .. 211

2 The Relationship between the Multi Year Plans of Programme Budgeting, Capital Programmes and Annual Revenue Budgets ..... 217

3 The Nature and Substance of Multi Year Plans ..... 222

4 The Long-term Current Expenditure Plan ..... 231

5 The Long-term Output Plan ..... 233

6 The Long-term Capital Programme. 235

7 The Long-term Financial Plan ... 236

8 The Long-term Income Plan ..... 238

9 A Final Note on the Integration of Planning and Budgeting ..... 239

CHAPTER XII : SUMMARY AND CONCLUSION ..... 241

1 The Scope of Programme Budgeting 241

2 The Rôle of Programme Budgeting in Policy Analysis ..... 242

3 Selectivity ..... 243

4 The Programme Structure ..... 244

5 The Value of Economic Analysis . 247

6 Long-term Planning ..... 251

7 The Integration of Financial and Programme Budgets ..... 252

8 The Continuity of Programme Budgeting ..... 254

9 Legislative Sanction ..... 256

10 The Institutional Framework .... 257

APPENDIXES ..... 261

BIBLIOGRAPHY ..... 275

## LIST OF TABLES


| | | Page |
|---|---|---|
| TABLE I | : COMPARISON OF U.S.A. DEPARTMENT OF DEFENCE BUDGETS ..... | 97 |
| TABLE II | : MUNICIPAL EXPENDITURE CATEGORIES ..... | 102 |
| TABLE III | : EXPENDITURE AND INCOME CATEGORIES ..... | 124 |
| TABLE IV | : EXPENDITURE AND INCOME OF A CLEANSING SECTION ..... | 126 |
| TABLE V | : FUNCTIONS PERFORMED BY LOCAL AUTHORITIES IN SOUTH AFRICA ..... | 151 |
| TABLE VI | : PROGRAMME STRUCTURE ..... | 155 |
| TABLE VII | : WORK DISTRIBUTION SCHEDULE ..... | 164 |
| TABLE VIII | : PROGRAMME STRUCTURE TO THE FIFTH LEVEL. | 167 |
| TABLE IX | : COMPARISON OF FINANCIAL AND PROGRAMME BUDGETS - TRAFFIC CONTROL ..... | 180 |

## CHAPTER I : INTRODUCTION

Although the subject of the present study is Programme Budgeting for South African Local Authorities, it has a great deal more to do with public expenditure than public revenues. Theories of taxation, sources of public revenues and public debt fall without its scope. The income of public authorities will be considered only to the extent that it is necessary in completing long term financial plans, and it will be covered in general terms only; an analysis of public income will not be undertaken.

This approach may at first sight seem unusual because budgeting by its very nature is a statement of proposed public revenues and public expenditures. The income side must at some stage come into the picture because no fiscal plan is complete without it. Definitions of a budget are found in works on political science, economics, public administration and financial administration. Most of these follow the general tenor of Shulz's definition - 'A budget is a financial programme for a specified period of time, usually for a year. It has two equally important parts, viz. a plan of expenditures and a plan for raising the necessary revenue'. (1)

There are, nevertheless, good reasons for the apparent anomaly that in a work on programme budgeting the income side can be virtually ignored. Attitudes to public finance have changed considerably during the past

---

1. Ernst B. Shulz, Essentials of Government, p. 439.

hundred years, from the negative approach of the classical and neo-classical economists, through the macro-economic theories of Keynes to the positive use of economic analysis in public decision-making. The functional analysis of public expenditure is of comparatively recent origin and received much of its impetus from the Hoover Commission in 1949. The Commission recommended among other things that 'the whole budgetary concept of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects'. (1) This was a considerable departure from the traditional concept of the budget as a financial plan for one year and an instrument for control. Expenditure was now to be analysed in depth with a view to focusing attention more upon the general character and relative importance of the work to be done or the service to be rendered than upon the things to be acquired. In the thirty years following publication of the Hoover report, notable advances in the functional analysis of public expenditure have been made, not only in the U.S.A. but in other countries as well.

The impression should not be gained, however, that no attention was given to public expenditure prior to 1949. In fact, governments and economists had devoted a great deal of attention to the subject from the beginning of the twentieth century. Yet attention was concentrated mainly in the sphere of the growth of total public expenditure

---

1. U.S.A. Commission on the Organisation of the Executive Branch of the Government, Budgeting and Accounting, p. 8.

and the means of controlling it. There were isolated institutions in which expenditure was classified on a functional basis, for instance the Tennessee Valley Authority and the British Army, but generally speaking traditional financial budgeting was the common practice. The main concern of governments was the growth of public expenditure in relation to the growth of national income, and the extent to which public expenditure could be utilised as an instrument in anti-cyclical budgeting. Much has been written on this aspect in the past few decades and the subject lies without the scope of the present study, except insofar as the long term financial plans of local authorities are concerned.

The rapid growth of public outlays gave rise to a demand for the planning and analysis of expenditure. Pronouncements were made that traditional financial budgeting had failed to provide a satisfactory framework for planning, analysis and decision-making. Programme budgeting was to a considerable degree a response to this apparent failure.

In the municipal field, interest in programme budgeting came later than in the sphere of central government. Several local authorities introduced a form of performance budgeting in the nineteen fifties following the publication of the Hoover Commission's report, but developments in the more comprehensive forms of programme budgeting came much later. Even today the adoption of programme budgeting systems is not as widespread as is commonly thought even though the concept may be widely endorsed.

The primary aim of the present work is to present a programme budgeting system suitable for South African local authorities. Towards this end the earlier chapters explore developments in the field of expenditure theories, budgetary practices and the form of accounts all of which have profoundly influenced the course of budgetary reform. The later chapters deal with the rise of programme budgeting and the implementation of programme budgeting systems overseas and in South Africa. In the final chapter the full implications of the integration of planning programming and budgeting are discussed.

The procedure adopted in proposing a programme budgeting system for South African local authorities is a micro-analytical study of one selected area of local government activity. The principles of programme budgeting are applied in this particular field with an indication of how a full programme budgeting system could be implemented by using this model and applying the same principles in other expenditure categories. The alternative method of presenting a full analysis of all objectives and programmes would require the inclusion of minutiae of a repetitive nature, and a sacrifice of much of the space devoted to the theory and philosophy of budgeting.

In conclusion, brief reference is made to a problem in the field of semantics. The term 'programme budgeting' as used throughout the present work implies a comprehensive system of budgeting embracing the concepts of planning, programming and budgeting. Some prefer the acronym PPBS (planning programming budgeting systems) to emphasise

its comprehensive nature; they believe the term 'programme budget' emphasises the budgeting rather than the planning aspect. Others use the terms 'output budgeting' and 'multi purpose budgeting'. It matters little which term is chosen provided it is understood that a system much wider than the purely financial budget is envisaged. The term 'programme budgeting' is used extensively in Great Britain and by Novick the well-known writer on programme budgeting, and by the Franzsen Commission in South Africa. The opinion has also been expressed that the initials PPBS will be superseded by a term which better indicates the recent advances which have been made towards the integration of planning and budgeting. (1)

---

1. Tomás O'Cofaigh, New Integrated Systems for Planning and Budgeting, p. 48; John W. Cooley et al, 'PPBS - Alive and Well', The Federal Accountant, June 1972, p. 21.

## CHAPTER II : THE CHANGING EMPHASIS IN THEORIES OF PUBLIC EXPENDITURE

If students of public finance or secretaries of finance or city treasurers were to refer to classical works on public finance, they would find little to guide them in the field of expenditure analysis. They would find a great deal on public income, especially taxation, and public debt. The problems associated with allocating total income among the various expenditure categories, and making a decision to increase expenditure on A and reduce expenditure on B are barely mentioned. Several writers have commented on this dearth of information. (1)

### 1 The Eighteenth and Nineteenth Centuries

An understanding of the political climate in the eighteenth and nineteenth centuries will help in explaining why economists devoted so little attention to public expenditure. Laissez-faire was accepted as the ideal in State-individual relationships; that government was best which governed least. This was born of the political philosophy of Hobbes and Locke in the seventeenth century and Rousseau in the eighteenth century. They had propounded the theory of a natural law which gave to the individual certain inalienable rights beyond the reach of the sovereign. The community then entered into a social contract with the State, however nebulous this may seem.

---

1. For instance C.F. Bastable, Public Finance, p. 6; G. Findlay Shirras, The Science of Public Finance, p. 27; Hugh Dalton, Principles of Public Finance, p. 189.

whereby they surrendered certain rights in order to obtain security but they retained all their remaining rights and liberties. The theory of a natural law slowly lost favour in the nineteenth century and is discredited today. It nevertheless exercised a strong influence in the economic field. Classical economists like Adam Smith and John Stuart Mill placed definite limitations on governmental activity. Jean Baptiste Say stated that the best scheme of finance was for the State to spend as little as possible. In the political sphere William Gladstone said that money should be left to fructify in the pockets of the taxpayers.

It was also a period during which the people were concerned with the problem of proper representation in the national assemblies in order to control the power over executive bodies, especially in the United States of America.

Adam Smith has often been referred to as the founder of political economy because of his classic 'The Wealth of Nations' published in 1776. It was a comprehensive work explaining the working of an economic system and covered a wide field of economics but the significance for the present study lies in the fact that Adam Smith gave one of the first expositions of public expenditure. In his well known fifth book, he set forth the view that the functions of the State should be restricted to defence from external attack, maintenance of internal law and order, provision of certain public works such as roads

and museums, education of youth and religious instruction. (1) He provided in the economic field the complement to the political theory of laissez-faire. Entrepreneurs were pleased to have such formidable support for free enterprise and limits on governmental interference.

It is noteworthy that John Stuart Mill devoted so little attention to public expenditure in the middle nineteenth century. He painstakingly set down the proper functions of government and the criterion of a good form of government. (2) His essay 'On Liberty' has been widely quoted in support of the limitation of government activity, and his general support for laissez-faire had a profound effect in both economic and political spheres in Britain and the U.S.A. 'Laissez-faire in short, should be the general practice: every departure from it unless required by some great good, is a certain evil'. (3) He was, nevertheless, in favour of a range of State activity greater than that advocated by Adam Smith and he also believed that the assumption of some functions by the State had nothing to do with the principles of liberty. He saw a causal relationship between the extent of government activity and the freedom of the individual, and he warned against the growing number of civil servants. His influence on mid-nineteenth thinking

---

1. Adam Smith, An Inquiry into the Nature and Causes of the Wealth of Nations, p. 653 ff.

2. John Stuart Mill, Considerations on Representative Government, Chapter II, p. 7.

3. John Stuart Mill, Principles of Political Economy, p. 950.

was far-reaching, especially in Great Britain, where laissez-faire gained greater acceptance than in other western countries. Continental writers like Sismondi, Müller and Rae were critical of many aspects of laissez-faire economics.

It is thus not surprising that so little attention was given to the cost side of public budgeting. The main problem had been seen as the raising of sufficient money for a restricted number of government functions. The French economist Leroy Beaulieu went so far as to say that public expenditures had no part in the science of finance, which was concerned primarily with revenues. (1)

In the latter half of the nineteenth century attitudes to public expenditure began to change, a consequence of the rapid growth in expenditure on public health, industrial legislation and education. Writers in the sphere of politics and economics accepted a growing list of exceptions to laissez-faire. Socialism in both its evolutionary and revolutionary forms was disucssed as an economic doctrine. However, public expenditure tended to be justified more on the claims of justice than on economic grounds. By the end of the century, laissez-faire was no longer seriously expounded. The general attitude was manifested in Adams' statement that laissez-faire amounted to nothing more than a declaration in favour of conservatism. (2)

---

1. Encyclopaedia of Social Sciences, Sixth Book, p.5.

2. Henry Carter Adams, Relation of the State to Industrial Action, p. 82.

## 2 The Marginal Concept of Public Expenditure

One interesting exception to the disinterest shown in public expenditure theory in the nineteenth century was the contribution made by the Austrian school of economists. By the end of the century marginal utility had become the keystone to the theory of value. It was presented first by W. Stanley Jevons in Britain in the form of final utility. It developed later into marginal utility in the hands of Austrian economists, in particular Menger, von Wieser and von Böhm-Bawerk. Their theory was based on subjective value, the value assigned by a consumer rather than a value based on labour and other cost elements. In order to have value a commodity must have utility, but it is not the total utility which gives value because varying quantities and successive increments have diminishing utility; it is the last or marginal increment which determines value and consequently price.

They extended the concept of subjective theory of value into the realm of factors of production, but it was Emil Sax who first indicated the relevance of the marginal utility theory of value to public policy:

> Finally came a comprehensive work of E. Sax, extending the theory of value over entirely new material to which no previous writer had applied it - to public imposts, and thus giving the theory one of its richest applications. (1)

The contribution of Sax was important because taxation came to be justified on purely economic grounds instead of on the abstract claims of justice. The revenue collected

---

1. Friedrich von Wieser, Natural Value, p. xxxiv and xxxv.

**Author** Cowden J W
**Name of thesis** Programme Budgeting for South African local Authorities 1973

***PUBLISHER:***
**University of the Witwatersrand, Johannesburg**
**©2013**

***LEGAL NOTICES:***

**Copyright Notice:** All materials on the University of the Witwatersrand, Johannesburg Library website are protected by South African copyright law and may not be distributed, transmitted, displayed, or otherwise published in any format, without the prior written permission of the copyright owner.

**Disclaimer and Terms of Use:** Provided that you maintain all copyright and other notices contained therein, you may download material (one machine readable copy and one print copy per page) for your personal and/or educational non-commercial use only.

The University of the Witwatersrand, Johannesburg, is not responsible for any errors or omissions and excludes any and all liability for any errors in or omissions from the information on the Library website.