

The Politics of Budgeting

UNamur – 3rd November 2022

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Introduction: The multifaceted nature of public budgets

- Enduring interest by **many disciplines** for budgeting: law, political science, economics, administrative science, management, etc.
- Each focusses on specific **facets, functions, and features** of public budgets: efficiency, legitimacy, procedural aspects, administrative arrangements, etc.
- Different **actors** involved: politicians, managers, accountants, economists... citizens and students!



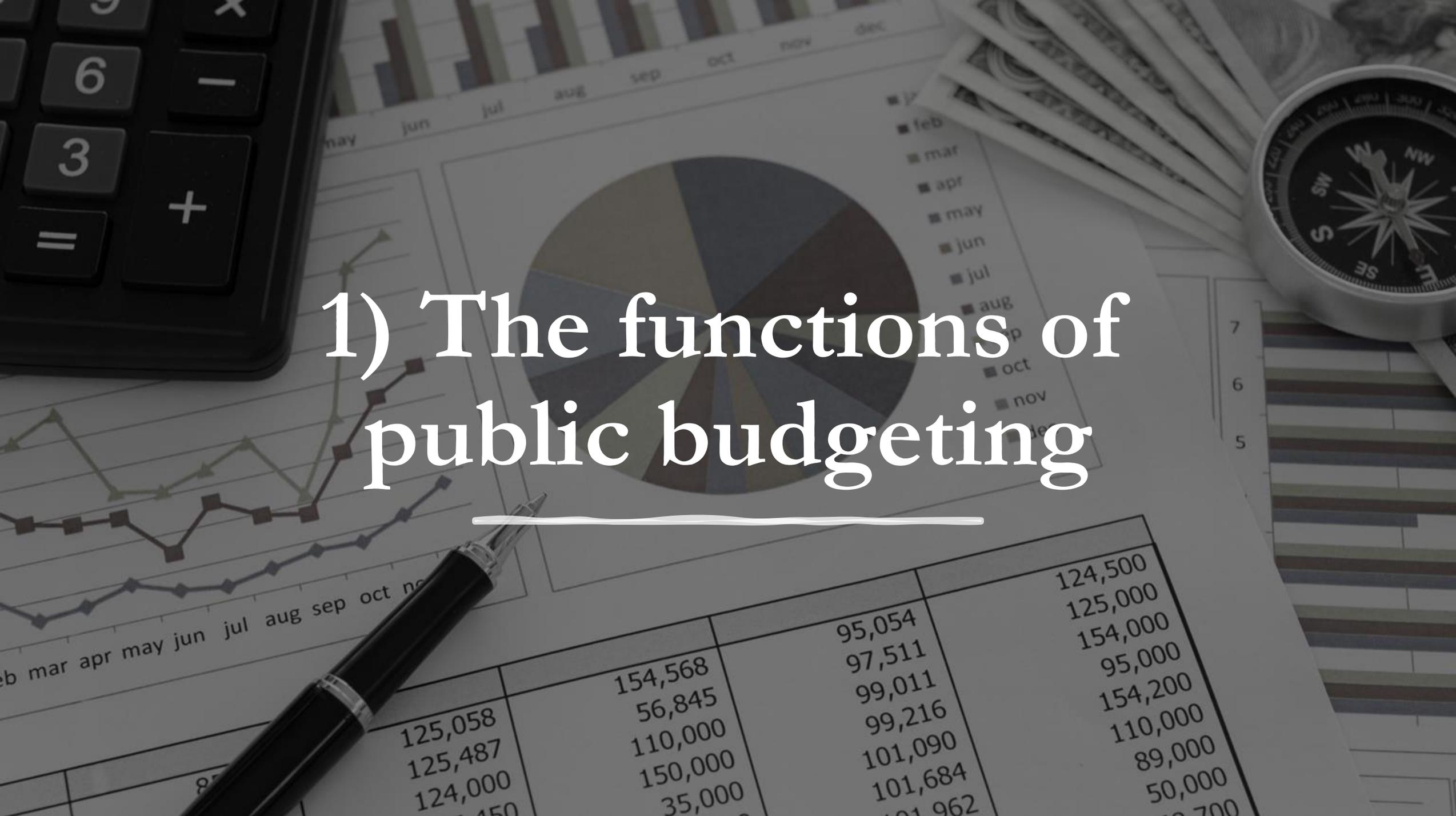
Plan

Introduction

- 1) The functions of budgeting
- 2) Budgeting as a politico-administrative process
- 3) Control and audit

Conclusion





1) The functions of public budgeting

125,058	154,568	95,054	124,500
125,487	56,845	97,511	125,000
124,000	110,000	99,011	154,000
150	150,000	99,216	95,000
	35,000	101,090	154,200
		101,684	110,000
		101,962	89,000
			50,000
			700

The functions of public budgeting



i) The political function

- **Traditional function** of budgets: expressing the *priorities* of governments and the way they intent to *fund* them
- Central document in the budgetary cycle;
- Public accessibility (\neq private sector);
- Importance of the *form* of the budgetary process: procedural aspects, key actors, executive-legislative relationships, etc. – see *infra*

Budget fédéral : les discussions se poursuivent, le climat se tend entre le PS et les libéraux



Accord sur le budget fédéral: voici les principales mesures

Les ministres fédéraux ont tranché sur une dizaine de points avant de pouvoir communiquer sur le budget 2023. La TVA à 6 % sur le gaz et l'électricité ainsi que les chèques énergies seront prolongés, au moins jusqu'au printemps.



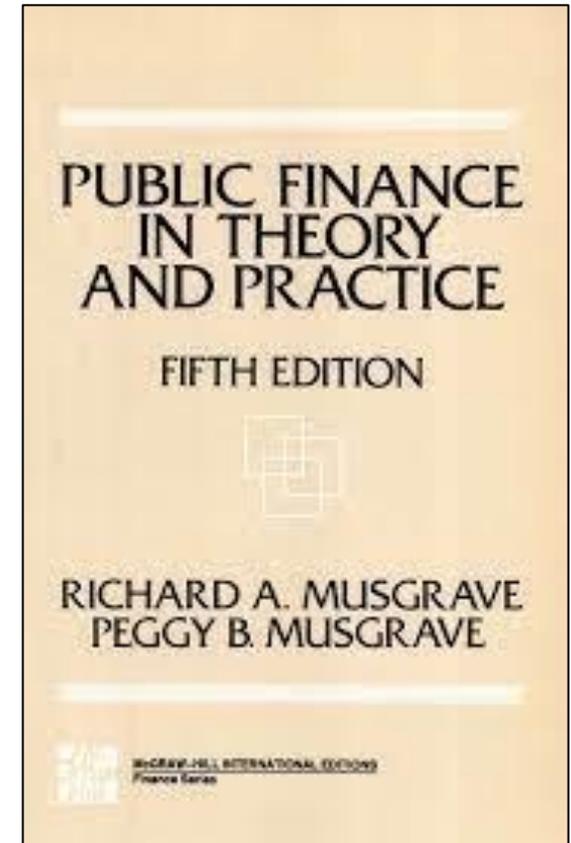
ii) The (external) accountability function

- At the outset, an **act of authorization**: no revenues can be raised, and no taxation can be imposed on constituents without the approval of their representatives
- Governments should be held **accountable** – to the public and, increasingly, to financial markets – for *what* they spend as well as for the *efficiency* and *effectiveness* of programs and services delivered
- **Key words**: clarity, accessibility, readability and comprehensiveness
- **Transparent and understandable** to stakeholders – which ones?



iii) The economic functions

- **Three main economic functions** (Musgrave & Musgrave, 1989):
 - 1) **Allocation:** degree of involvement of the public sector in the economy
 - 2) **Distribution:** how are the sacrifices/benefits distributed among the population?
 - 3) **Stabilization:** budget as macroeconomic management tool, which can be used to improve the overall economic performance and anticipate/mitigate economic downturns



iv) The managerial function

- Budgets can facilitate the attainment of *strategies* set forth by governments and public sector entities
- **How?** By holding *public managers* accountable to the government for their *results* and the use of *resources*
- **Programming** of approved goals into specific **projects and activities**, design of **organizational units** to carry out approved programs, and **staffing** of these units and the procurement of necessary resources
- Traditionally weaker, but **managerial reforms** promoted significant changes in traditional budget formats and processes



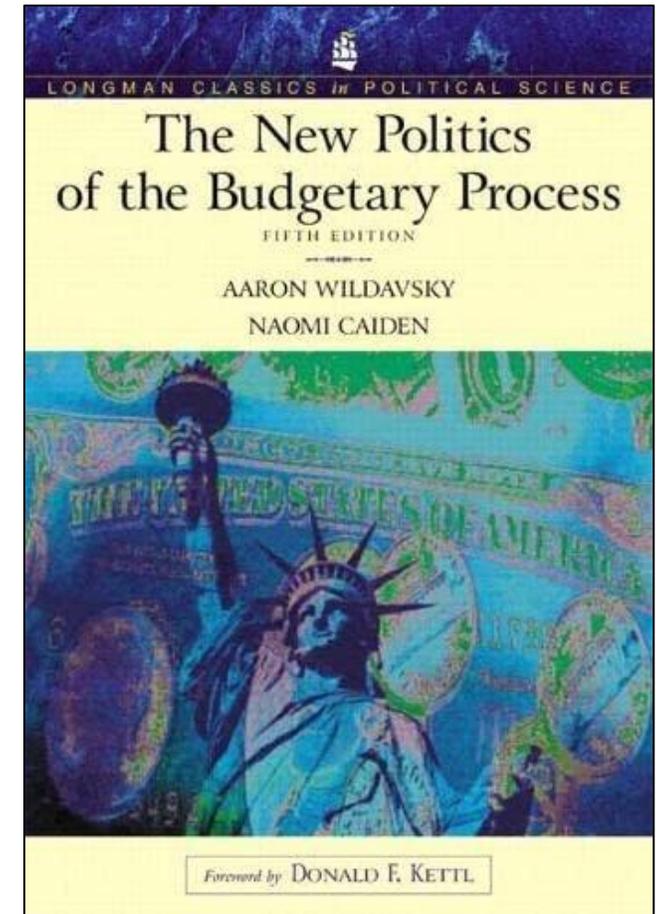
A collage of financial and administrative items including a calculator, a compass, a pen, and various charts and tables. The background features a pie chart, a line graph, and a table of numbers. The text "2. Budgeting as a politico-administrative process" is overlaid in white, underlined.

2. Budgeting as a politico-administrative process

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Budgeting as a politico-administrative process

- Budgetary processes are regulated by **laws or rules**
 - What are the different stages? Who are the actors involved? Which powers do they have? What rules do they have to follow? What is the degree of publicity of such processes?...
- **Beyond these legal perspectives**, budgeting comprises complex *decision-making processes*
- Multiple actors bring their interests and priorities to the table → **“Who gets what, how and why”?**
- **Depends not only on rational decisions, technical rules and procedures**, but also on past decisions, power relationships, alliances, bargains, changes in the environment...



Budgeting as a politico-administrative process

- **Incrementalism?** Decisions that use last year's budgets to develop this year's budgets by making **marginal adjustments** resulting in stable patterns overtime
- **Advantage:** way to simplify budget decisions and to reduce conflict over decisions related to the allocation of money
 - More comprehensible and predictable
- **Disadvantage:** may result in conservatism, short-termism and the support of existing coalitions and policies



The Science of “Muddling Through”

By CHARLES E. LINDBLOM
*Associate Professor of Economics
Yale University*

► Short courses, books, and articles exhort administrators to make decisions more methodically, but there has been little analysis of the decision-making process now used by public administrators. The usual process is investigated here—and generally defended against proposals for more “scientific” methods.

SUPPOSE an administrator is given responsibility for formulating policy with respect to inflation. He might start by trying to list all related values in order of importance, e.g., full employment, reasonable business profit, protection of small savings, prevention of a stock market crash. Then all possible policy outcomes could be rated as more or less efficient in attaining a maximum of these values. This would of course require a prodigious inquiry into values held by members of society and an equally prodigious set of calculations on how much of each value is equal to how much of each other value. He could then proceed to outline all possible

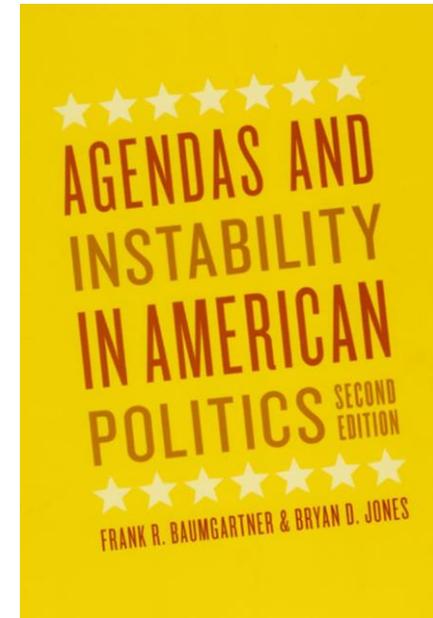
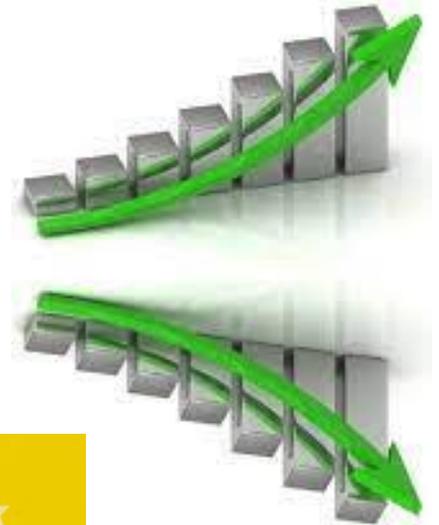
Decisions of individual administrators, of course, must be integrated with decisions of others to form the mosaic of public policy. This integration of individual decisions has become the major concern of organization theory, and the way individuals make decisions necessarily affects the way those decisions are best meshed with others'. In addition, decision-making method relates to allocation of decision-making responsibility—who should make what decision.

More “scientific” decision-making also is discussed in this issue: “Tools for Decision-Making in Resources Planning.”



Budgeting as a politico-administrative process

- **Decrementalism** (late 1970s-80s) ? Translation of incrementalism **under constrained resources**
 - **Expression:** ‘equity cuts’ and sharing the pain among units
- **Punctuated equilibrium:** A wide number of empirical studies revealed that budgets are occasionally punctuated by **large shifts** in budget positions



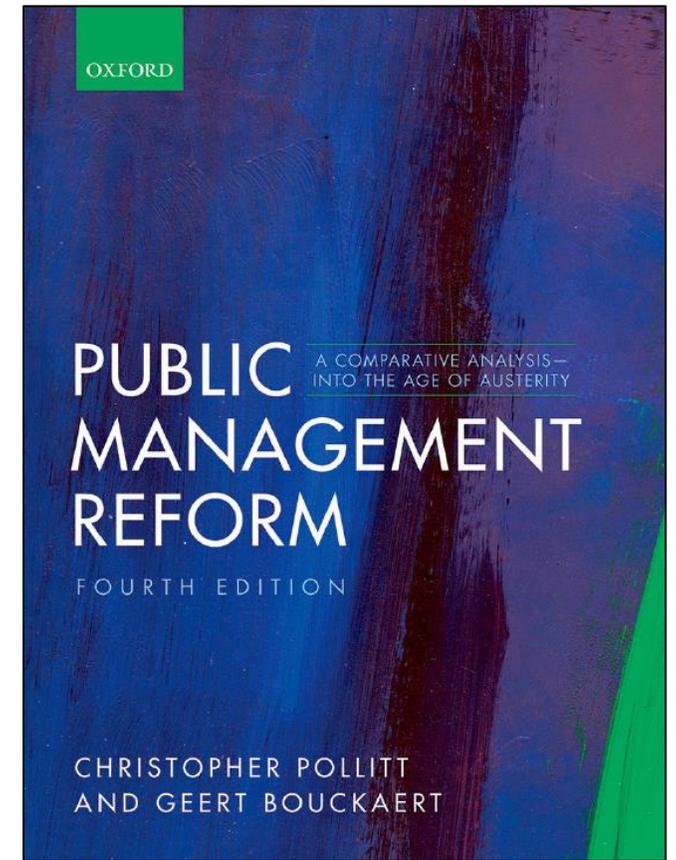
Budgeting as a politico-administrative process

- **Planning and programming approaches** (60s-70s): Reform movements that aimed at increasing the comprehensiveness and **rationality** of budgeting processes
- Trust in **centralized and top-down processes** and a strong focus on the **economic function** of budgeting
 - E.g. Planning, Programming, Budgeting Systems (PPBS), Zero-based budgeting (ZBB),...



Budgeting as a politico-administrative process

- **NPM: “latest rationalization phase”**
 - Focus on “**decentralized and managerial** decision-making”
 - Strong confidence in the effectiveness of **technical-rational approaches**
 - Eg: Performance budgeting, use of KPIs...
- Yet... **General weakness** of reforms mainly based on technical-rational assumptions and ignoring the political and cultural surrounding context
- “*Over almost half a century* many countries have experienced considerable and persistent difficulties in trying to establish close links between the performance of programmes and their budget allocations” (Pollitt & Bouckaert, 2017, p. 81)



A never-ending story?

La Wallonie mise sur le budget base zéro pour sauver ses finances



Où la Wallonie va-t-elle faire des économies? Le gouvernement d'Elio Di Rupo doit entamer dès mars prochain les grands arbitrages politiques. ©Diego Franssens

FRANÇOIS-XAVIER LEFÈVRE | 08 février 2022 05:00

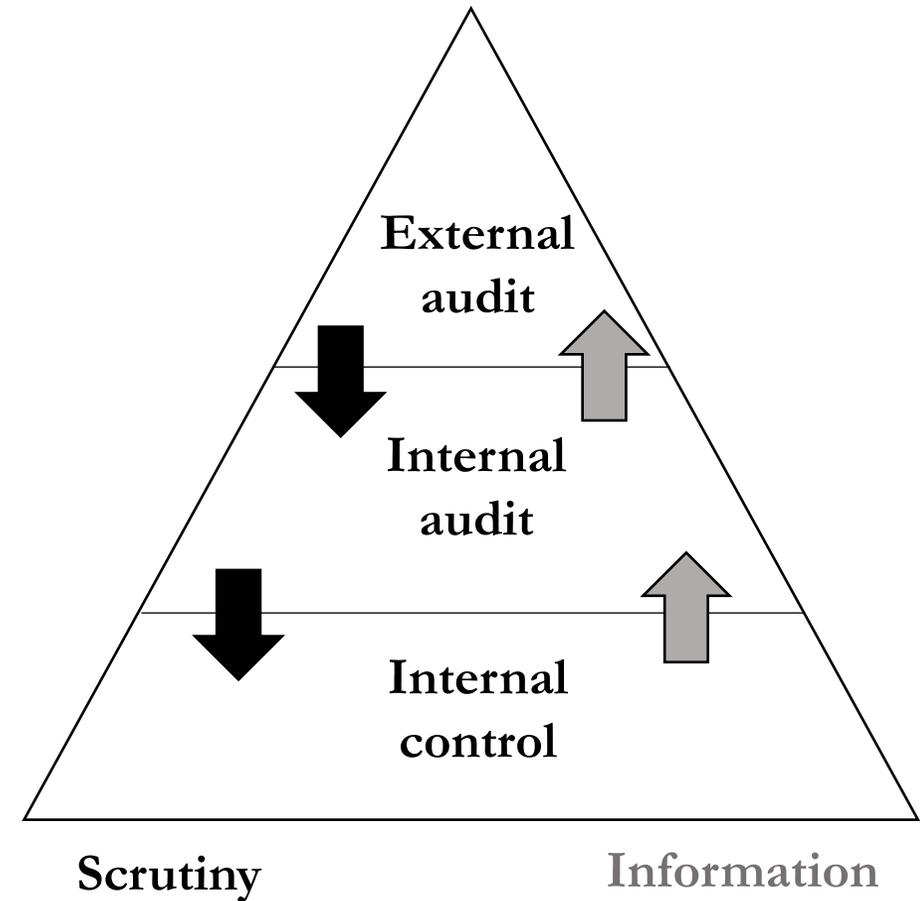
3. Control and audit

Introduction: NPM and control

- NPM programmatic goal? Adaptation of structures and control methods to **increase managerial accountability**
 - Moving beyond mere *regularity* control (compliance with laws and regulations) → Focus on the **performance and effects** of public action
- Major changes in three areas of the budget and financial cycle: budget formats, accounting systems and control systems
- Redesign of organizational **control systems**: (difficult) balance between autonomy and accountability
- **Solution** : Deliberate erosion of central capability in favor of the *long distant* mechanics of auditing and accounting

The ‘*single audit*’ model

- Different levels of protection against risks that could prevent the achievement of organizational objectives:
- **Internal control:** taken over by the departments themselves, with the aim of making them accountable
- **Audit:** evaluation and improvement of the internal control system – “meta-control”
 - **Internal audit:** addressed to internal “clients” of the organization – those who *use* the resources
 - **External audit:** conducted on behalf of “clients” external to the organization – those who *provide* the resources



Main control and audit mechanisms in the (Belgian) public sector

1. Internal Control;
2. The Inspectorate of Finance;
3. Internal Audit;
4. External Audit – The Court of Audit

i) Internal Control

- **Definition?** “**Mechanisms** to ensure that weaknesses in the systems themselves, as well as errors and irregularities in transactions, are identified and corrected, and where necessary, recoveries made” (Court of Auditors of the EU, Opinion n° 2/2004 on the ‘single audit’ model)
- **Goal?** Striking a **balance** between the cost of controlling and the benefits brought in terms of limiting the risk of irregularity to an *acceptable* level
 - **Eg:** division of functions, delegation procedures, opinions to be obtained, hierarchical confirmations, etc.



ii) The Inspectorate of Finance

- Interfederal Corps made up of Inspectors **advising** (largely informally) **and monitoring governments** on budgetary and financial matters
- **Substantial powers:** control of legality and regularity, control of economy, effectiveness and efficiency, budgetary impact and compliance
- **Absence of hierarchy:** absolute independence in the exercise of their mission;
- Access to all records and information requested



The screenshot shows the website for the Interfederal Corps of the Inspection of Finance. The main header is "Le Corps Interfédéral de l'Inspection des Finances" with the sub-header "CONSEIL | CONTRÔLE | AUDIT". Below this are three navigation buttons: "PRÉSENTATION DE L'INSPECTION DES FINANCES", "INTRODUCTION DU DOSSIER", and "AUDIT". The main content area is titled "Bienvenue" and contains a welcome message and a description of the organization's mission.

Le Corps Interfédéral de l'Inspection des Finances
CONSEIL | CONTRÔLE | AUDIT

PRÉSENTATION DE L'INSPECTION DES FINANCES
LIRE PLUS

INTRODUCTION DU DOSSIER
LIRE PLUS

AUDIT
LIRE PLUS

Bienvenue

Bienvenue sur le site du Corps interfédéral de l'Inspection des finances.

L'Inspection des finances est un service public qui effectue des tâches de contrôle relatives à la légalité, la régularité, la faisabilité budgétaire et l'opportunité des dépenses publiques sous l'angle principalement de l'efficacité, de l'efficience et de l'économie (les 3 E).



Les inspecteurs des finances interviennent auprès des Gouvernements de l'Etat fédéral et des Communautés et des Régions. De là découle son caractère « interfédéral ».

ii) The Inspectorate of Finance – Main missions

- **(Active) advisory competence:** recommendations aimed to increase the effectiveness and efficiency of public resources, to improve departmental services and to achieve savings
- **General (*passive*) competence:** mandatory opinion on matters submitted by the primary or delegated authorizing officers to whom they are accredited
 - **Areas:** personnel, public procurements, subsidies & others (budget proposals and adjustments, guarantees, expropriations, arbitration, etc.)
 - **Preliminary advice,** subject to appeal
- **Audit authority** for EU co-financed programs (e.g.: CAP and Structural Funds)

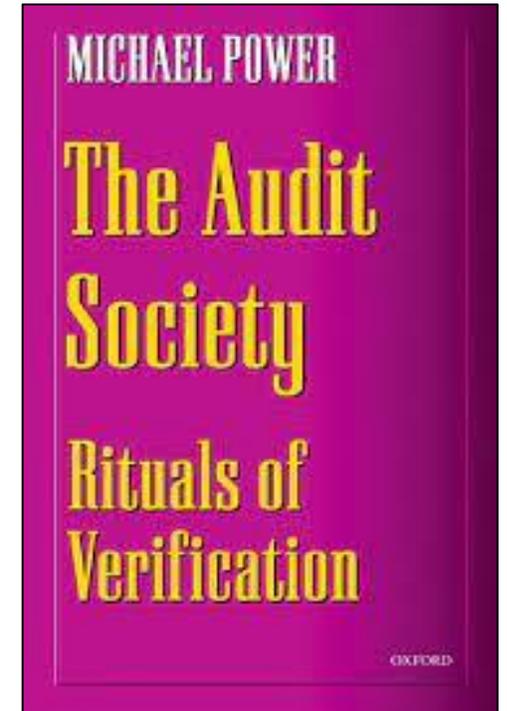
iii) Internal audit

- “Investigative work allowing the **evaluation** of accounting, administrative or other procedures implemented in a company in order to guarantee to one or several interested groups, managers, shareholders, the staff, third parties (banks, public bodies...), the regularity and sincerity of the information made available to them and relating to the running of the company” (de Visscher, 2022)
- Originating from the private sector, the function of internal auditor is **increasingly being extended** to public organizations – more or less quickly and formally depending on the country



iii) Auditing and control in the public sphere (Power, 1997)

- “Governance is not a choice between centralisation and decentralisation. It is about **regulating relationships** in complex systems” (Rhodes, 1994, p. 151)
- Reflects a **broader shift** in regulatory style as **control responsibility is passed down into organizations**
- **Clear tendency:** regulatory style seeking to internalize control at the bottom of a layered regulatory system, with oversight and ultimate sanction at the top
- **Consequence?** Centres maintain strategic control, exercised through policy levers of evaluation, audit, and inspection
- **Tool of recentralization** in a context of devolution of public service provision → ‘**Meta-monitoring**’



iv) The external audit – The Court of Audit

- Collateral body of Parliament – Independence *vis-à-vis* the government
- **External scrutiny** of the budgetary, accounting and financial operations of the Federal State, the Communities, the Regions, the public service institutions depending upon them, and the provinces
 - The review of townships falls *outside* the Court of Audit's remit
- Large independence and real autonomy to perform its **missions**



iv) The external audit – The Court of Audit : missions

- 1) **Three main (*ex post*) control missions** – see *infra*
- 2) **Jurisdictional task** towards the public accounting officers whose accounts are in deficit
- 3) **Specific tasks:** funding of the federated entities (school students' counts, advice and information on regional fiscal autonomy...), lists of mandates and declaration of assets filed by political representatives and senior officials, advice on financial reporting by the political parties and campaign expenses...



iv) The external audit – The Court of Audit : (*ex post*) control missions

1) **Legality and regularity audit:** are public income and expenses in line with the budget ? Are the other legal rules correctly implemented (e.g. standards for public procurements, subsidies, recruitment,...)?

2) **Financial audit:** the Court verifies or certifies public accounts

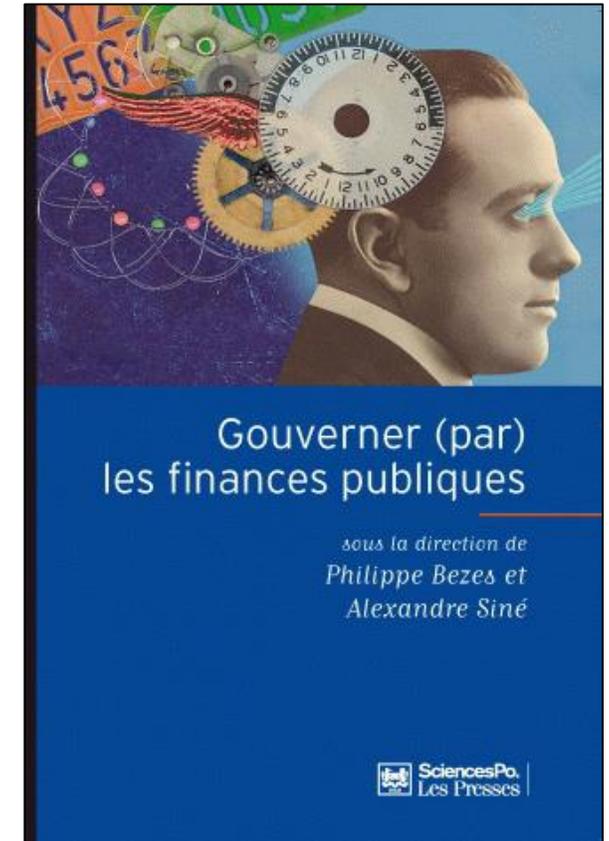
- Are financial statements reliable, accurate and complete? Are accounting transactions compliant with the public accounting legislation?

3) **Audit of the sound use of public funds:** are the “3E” taken into account in the implementation of public policies?

- **3Es?** *Economy* (acquiring resources under the best possible terms), *effectiveness* (conformity of outcomes with stated goals), *efficiency* (ratio between resources and output)
- Mission close to public policy evaluation
- Limitation: not allowed to pronounce on the *relevance* of policies

Conclusion

- Public budgets perform **several (and sometimes competing) functions**
- **Long tradition of public budgeting reforms** with a view to increasing the performance of public organizations and services → For what effects?
- Growing importance of the **managerial function** of budgeting
 - **Objectives:** decentralization, responsabilization, accountability
 - **Pattern?** Easing of systematic *ex ante* controls and shift towards internal control and *ex post* audits
- Budget, accounting and audits: **no “neutral” technologies, but public policy tools** → **Ways of governing** subjects and organizations: what effects on administrative action? What changes in the balance of power?



Key references

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