

# BUDGETING AS A GOVERNMENTAL FUNCTION

by

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## Historical Development of the Budgeting Process

Governmental budgeting is as old as government itself. Even the earliest tribal councils, organized to look after problems of community concern, attention had to be given to the resources available for tribal projects and to the manner in which such resources would be used. Whether the tribal project was to wage war against a neighbor, to capture horses or elephants, or to clear or irrigate land, the tribal chief and his council had to evaluate the resources and capabilities of the community in relation to the task at hand. This process was budgeting, even if of a very primitive nature. For budgeting is resource and operational planning, expressed principally in financial terms; and it is a process common to all organized societies be they large or small, simple or complex.

Throughout the centuries and millennia of human history tribes were consolidated, nations were formed, populations multiplied, and governments became more and more complex. Concurrently, the problems of governmental budgeting increased. More and more people became involved in the budget process while still others became interested in the budgetary plan itself. The legislative body was interested since it had to pass tax laws and appropriation acts to support the budget. Executive officers were concerned because they were required to carry the budgetary plan into effect. And private citizens were interested because they were called upon to pay taxes in support of the budget and because they stood to gain or lose depending upon how well the plan was devised and how well it was carried into effect.

### Line Item Budgeting

At first, published budgets were quite rudimentary and dealt with only a few aspects of budgeting. Line by line they merely itemized sources and amounts of income; and then line by line they listed proposed expenditures. For early governments a page or two sufficed for this

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listing. But as governments grew those few pages of the budget document grew into a volume. It became difficult to find items in the budget. And so the system of classifying budgetary items developed whereby similar items of income and related items of expenditure were grouped together for easy reference. At the same time accounting systems were revised in accordance with the same system so that records could be kept of expenditures by agency, activity, or program, and according to objects of expenditure.

Frequently governmental units found that expenditures and obligations were incurred which exceeded the planned expenditures. Indeed, total expenditures and obligations frequently exceeded total resources available for payment. To avoid this and to secure budgetary control, accounting systems were further modified so that obligations could be recorded, or encumbered against an allotment, *before* the obligation was incurred. Budgeteers thereby focused attention on problem before the damage was sustained.

#### **Introduction of Performance Factors**

As the science of budgeting developed, more and more attention was given to the budget building process. The chief executive and legislative body required, and began to insist upon more information, more factual data, to support departmental requests for funds; and concurrently, departments discovered that their requests secured more attention and a better chance of acceptance if they were supported by facts and figures beyond mere object and activity totals. And so tables of organization and manpower and equipment schedules came to be submitted in support of existing and future programs. Some more progressive agencies even began to install cost accounting and performance reporting systems so they could accumulate more meaningful data. These became more and more useful, not only in budgetary planning, but also as a means of budgetary and managerial control.

#### **Central Budgetary Coordination**

While these developments occurred, the task of analyzing requests, supporting schedules, and financial statements, and indeed coordination of the total budgetary process, also grew into a sizeable technical and administrative responsibility. In recognition of this, some governments established, or began improving and enlarging the analytical and administrative capacity of their budgeting staffs. By applying proven practices of budget administration and by utilizing new

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analytical techniques, this new generation of specialists brought to budget administration a fresh and comprehensive approach little dreamed of a few decades before. Budget forms were simplified and agency officials were trained in their use; budget requests were scrutinized and analyzed centrally with as much care as by originating department; budgeting and accounting were more closely correlated; allotment and other control devices were installed or improved; and budget and financial reports were made more meaningful and useful. In essence, budget administration finally came of age as perhaps the most useful tool of management. Top management found that with a budget staff, and with effective budgetary control, it could devote more attention to directing the broad course of government, and was less bothered with the nuisance of solving day to day operational problems.

### **Organization and Management Improvement**

With aggressive leadership developing in budget staffs, related avenues of managerial improvement became apparent. The analysis of budget requests, organization charts, manning tables, and performance data and reports of departments, clearly showed that some agencies were practically unaware, or took insufficient advantage of modern managerial knowledge. Others were aware of new management techniques but were too embroiled in day to day operations to apply them. It became apparent that the operating departments needed stimulation and assistance in solving organization and management problems. And so, some budget bureau's assembled specialists in organization and management (O and M) work, and often established O and M units. These specialists began to provide advisory and technical aid to departments, both upon request and in instances where budget reports clearly indicated the need of such help. This adjunct of budgeting, in places where O and M programs are now well established, has had far reaching effect upon the improvement of organizations, procedures, systems, and methods of governmental administration.

### **Long-Range Developmental Planning**

In some governments refinements in budget administration made feasible the development of still another facet of budgeting, viz, long-range economic and development planning. Too frequently the emphasis of the budgetary process is upon the estimation and utilization of money and resources for a one or two year period. It should be obvious, however, that no annual or

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biennial budget can be drawn to maximum advantage if it ignores longer range needs and implications of the economy. Most desirably a government's budget should be drawn in full consideration of long-range social and economic needs and objectives of the country, and if these things have not been researched, analyzed, subjected to public scrutiny, and decided upon, then the government and the country are somewhat like a ship at sea without a rudder. When long-range planning is applied, however, competently, aggressively, and continuously to the economy and its social and political composition, then it is possible to advance more rapidly the purposes of the government and the well-being of its constituent citizens. The work of the annual or biennial budgeteer is then facilitated for he can evaluate items for inclusion in the budget in the light of clearly identified, and priority-rated objectives already specified in the country's developmental plan.

### **Review or Developments in Budget Administration**

At this juncture and before relating the foregoing to the situation in Thailand, we should reflect a moment upon the development of the budget process and upon how modern concepts of budgeting differ from ancient and antiquated systems.

It has been stated that governmental budgeting is as old as government itself; that tribal councils had to consider the resources of the tribal community in relation to projects of community interest. It is true that that was budgeting, but obviously it was quite rudimentary. Nothing was reduced to writing. Only the broad outline of the tribal project could be known. The details were worked out through trial and error as the work proceeded.

But even though crude, these early systems may have been more effective than some which came later. At least the tribal councils were close enough to situation, the resources available and the job to be done, to weigh one against another and to evaluate the probable effects of one course of action in contrast to another.

Later, as governments grew, this sort of close acquaintance with resources, needs, and problems became difficult to achieve. People charged with responsibility for budget preparation and control, because of the sheer magnitude of governmental operations and problems, lost contact with operating situations and needs. Separate line items in budgets were not supported by detailed knowledge of what was involved. Too frequently the figures opposite each line were only rough guesses, and were not backed up by real work or performance data.

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Nor were the items in the budget document systematically devised. It was difficult to identify separate programs and activities, and impossible to ascertain how much was to be spent for labor, materials, equipment and other objects of expenditure. The lack of system in the budgetary structure meant that accounting control of the budget was, of necessity, quite loose. Nor were the financial reports drawn from the accounts very meaningful or useful.

Unfortunately, many governments still approach budgeting in this distant, haphazard manner. They have no way of knowing what the budget plan is; whether expenditures are being made in accordance with the plan; or where they stand financially at any given time in relation to the budget. As an aid to management this kind of budgeting is practically worthless. It provides no means for reviewing governmental programs--to curtail needless activities, to speed up urgent programs, to eliminate waste and useless expense, or to bring about the simplification of systems, methods, and work procedures. And it would strain one's credulity, indeed, to try to imagine that a government with such an antiquated budget system operated in keeping with the long-range economic and social needs of its country.

In contrast to such an archaic system, modern budget administration emphasizes that budgeting is a primary instrument of management in planning and carrying into effect the total operational and capital program of a government. Most desirably the annual budget should be prepared in consonance with a long-range developmental plan. This assumes that some dynamic agency of government, enjoying high prestige and respect, adequately supported with funds, and with a capable staff, is continuously concerned with preparing, extending, and as changing conditions dictate, modifying developmental plans. It assumes further, that such plans receive the stamp of approval of the highest political and executive leadership of the country.

Within the framework of these plans and projections the regular budget agency coordinates the preparation of the annual budget. In doing so it cannot cloister itself in an ivory tower. It must be cognizant through close association, study, and analysis with the administrative capabilities and limitations of operating departments, and it must be able to relate the anticipations and requests of such departments to their capabilities and limitations, as well as to pertinent segments of the country's long-range developmental plan.

But an effective budget process goes far deeper than analysis, assembly, and control by the central budget agency. It requires understanding and proper action by operating departments

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as well. Each operating agency should know, through research and intimate experience, what the needs are in its assigned area of public service. It should devise the best possible administrative arrangements to secure maximum advantage of available funds, and it should be prepared to propose and defend innovations or new programs when these are needed. This necessitates internal planning and management of a high order of excellence. The degree to which management expertise has been developed in an agency is demonstrated no where more clearly than in its budgetary activities. Where there is good management, an agency's initial budget proposals will be carefully thought out and adequately supported by performance data. And after approval of its budget, its operational program will be carefully controlled to insure adherence to the budget plan and appropriation.

No budget for a department can be much better than the original plan devised by that agency, regardless of the excellence of its central review and modification; and no budget plan, however fine, can be carried into effect without the understanding and aggressive action of operating agencies. Good budgeting, therefore, requires action in depth, throughout an organization. People skilled in budgetary planning and administration are needed in operating departments just as they are needed in the central budget agency. A good budget bureau appreciates this fact and constantly seeks to stimulate understanding, and the expansion of technical know-how in operating agencies. Thereby it simplifies and makes easier its own job.

Finally, it should be clear, that all segments of governmental operations and services should be under budgetary control. Budgeting can be only partially effective if some agencies and service areas are included within, while others are excluded from the budget plan. This is true of both governmental income and expenditures. To be of maximum benefit all items of income and all areas of expenditure should be weighed in the budgetary balance when public service plans of a government are being formulated.

Now let us relate some of the foregoing to the situation in Thailand.

#### **Budget Administration in Thailand**

Thailand's budgetary history seems to have paralleled that described earlier as the pattern in governments generally. In 1890 when King Chulalongkorn created the Ministry of Finance, this ministry was assigned responsibility for budgeting. In 1915 when the Comptroller General Department was established in the Finance Ministry, Budget was accorded divisional

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status within that department. In 1958 Budget became a Suen in the same department. In 1959 it was transferred out of the Ministry of Finance and was made an Office or Bureau in the Office of the Prime Minister. In its present location the Budget Office has status equivalent to a department and enjoys enhanced prestige and recognition for its role in financial and budgetary planning.

One of the most significant advances in Thai budgeting was made in October, 1959, when a new Budget Procedure Act was approved by the Assembly. Under this act the Budget Director has the power and duty to prepare a budgetary plan which is then submitted to the Council of Ministers and Assembly for action. This provision, which has been developing for several years, makes the Budget Office the central analytical and coordinative agency of the government in the budget preparation process. Now, instead of merely assembling and checking the arithmetical accuracy of agency requests, it is by law required to analyze and adjust requests in keeping with financial policies prescribed by the Council of Ministers. The Office also plays a major role in advising the Council of Ministers as to ceilings which should be applied to agency expenditures and allotments.

The Budget Office is organized into a central division and six technical divisions. Four of the latter coordinate budget preparation and analysis and budgetary allotment control of governmental agencies. Budget estimates of the numerous government departments are submitted to these four divisions for analysis during the budget building process. The other two technical divisions are concerned with: 1) preparing budget instructions, forms, and procedures, and assembling and printing the budget; and with 2) estimating revenues, drafting appropriation bills and preparing financial statements for the annual budget. The budget document, incidentally, now consists of five volumes: 1) the appropriation act; 2) revenue and expenditure classifications and comparisons; 3) the expenditure budget; 4) the revenue budget; and 5) financial statements. The five volumes contain a wealth of information respecting revenue sources and amounts and concerning planned programs, projects, and objects of expenditure. For comparative purposes they also contain historical data about revenue and expenditures and they show projections of debt service requirements.

You can well imagine that the preparation of a comprehensive budget such as Thailand is now fortunate to have is a tremendous task. It is a task which involves not only the Budget Office's budgetary or allotment unit, the Council of Ministers, and the Constituent Assembly, but

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also all operating agencies of the government. During December and January preliminary expenditure ceilings are determined in consultations between the Budget Office and government agencies. These ceilings are recommended to and considered by the Council of Ministers in February. After these ceilings are fixed, government agencies submit their detailed requests to the Budget Office. The Bureau insists that these requests be supported for each program or project by data which show clearly the number and types of personnel, the pieces of equipment and kinds of structures, and the materials required for the program or projects, as well as the costs of such items. In addition, the agency is expected to justify the project in terms of services to be rendered or units of work to be produced. For example, if the Health Department plans to construct and open a new health clinic, not only the initial cost of the structure must be known, but also the future staffing and operating requirements in relation to the work load. And data must also be furnished which proves that existing facilities are inadequate to serve the health requirements of the community wherein the new facility is to be located.

As agency requests and supporting data are received in the Budget Office, they are analyzed by its program specialists. Numerous discussions and consultations are held with the originating departments. Additional data may be solicited. The relative value of different projects is weighed. Ways of accomplishing the same or similar results more economically are considered. Here the planned program or project must compete with other priority projects, and the care and expertness with which the department has planned and justified its proposal largely determines whether it is included in or excluded from the budget.

By mid June the Budget Office has completed its analysis, has consolidated the various requests and supporting schedules, and has published the budget documents. These, including an appropriation bill, are presented to and defended before the Cabinet in late June. Toward the end of July the budget is submitted to the Constituent Assembly. During August and September the Assembly considers the budget and it adopts a budget plan and passes an appropriation act prior to October 1, which is the beginning of the fiscal year.

The process just described is that employed in building the budget. After the budget is adopted, adherence to the budget plan must be secured. This is accomplished through a pre-audit of expenditure documents made by the Comptroller General Department, and through an allotment system enforced by the Comptroller General Department and the Budget Office. The pre-

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audit has been in force for many years but has recently been expedited through improved accounting devices. The allotment system was installed in 1959. Under the latter system, allotments, which are portions of total annual appropriations, are authorized in advance for expenditure in each four-month period of the fiscal year. They are authorized by the Budget Office on the basis of allotment requests submitted by government departments. The approved allotments are set up on accounting control ledgers maintained by the Accounting and Disbursement Division of the Comptroller General Department. The Budget Office and concerned spending agencies are informed of allotment balances by regular accounting reports, and payments beyond authorized allotments will not be processed by the Comptroller General Department.

The foregoing brief explanation should suffice to impress upon you that budget administration in Thailand, including budget development and budget control, is being approached comprehensively and progressively by budget authorities. This new analytical and performance approach has been in use for only a few years, and yet already it is yielding rich rewards in governmental operations. It is probably safe to say that budget administration in Thailand already is second to none in Southeast Asia.

#### **Areas for Improvement in Thai Budgeting**

This is not to say that budget administration in Thailand is incapable of further improvement. Thai budget officials, being progressive public administrators, would be the first to admit the need for additional improvement--and indeed are actively working toward that end. They are constantly endeavoring to improve the systems and techniques for budget preparation, analysis, and control which were only recently installed.

Aside from this, the areas most in need of attention now appear to be the following:

- 1) Better understanding and capacity on the part of operating department in budgetary techniques and management.
  - 2) The development, installation, and use of performance reporting and cost accounting systems by operating department in order that budgeting and management may become more performance oriented.
  - 3) Stimulation, professional leadership, and technical assistance in organization and methods improvement, including organizational, procedural, systems, and forms simplification and improvement.
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- 4) Greater recognition of the importance, and attention to the development, of the government's long-range planning capabilities.
5. The extension of the budgetary process to encompass all elements of governmental income and expenditure.

Work is being done in these areas. Studies have been completed of a complex of funds (debtor-creditor accounts) which have been built up over the years from receipts of many departments. These funds are administered by the departments themselves and can be spent by them without reference to the budget or regular appropriations. The studies which have been concluded, have pointed the way to a liquidation of many of these separate funds, and plans have been made toward this end. Implementation of these plans may be a long-term proposition, however, and will require considerable persistence and fortitude on the part of the Ministry of Finance and Budget Office.

Besides these so-called debtor-creditor accounts, there are many other governmental revenues and operations outside regular budgetary control. Indeed, only an estimated 50 per cent of governmental resources are now under such regular control. Naturally this reduces the effectiveness of budgetary planning to the detriment of the country as a whole. The resolution of this problem will require extraordinary political wisdom.

Within the area of its purview and responsibility, however, the Budget Office has made great progress. The techniques it has installed internally have already been described. With respect to operating departments, it constantly seeks, through communications, conferences, and training sessions to improve the quality of agency budgeting. In addition, in July of last year, it established an Organization and Methods Unit, the duty of which is to foster administrative management improvement and the simplification of methods, systems and procedures used by the government. Already this new unit has completed an organizational reconnaissance of the Highway Department as a preliminary step to a concerted program of technical O & M assistance to that agency. Similar reconnaissance studies are proceeding in two other areas, viz, the Ministry of Health and the Department of Agriculture.

Long-range developmental planning in Thailand is the responsibility of the National Economic Development Board. While this and its predecessor agency, the National Economic Council, date back to 1950, their planning activities have gained less headway and momentum than

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has the Thai annual budget process. When the planning function was reorganized in 1959 the NEDB commenced to augment its staff with professional caliber personnel. Subsequently this reconstituted agency has endeavored to prepare a six-year plan for Thailand. These first efforts at long-range developmental planning naturally were beset by many difficulties, and these difficulties were necessarily reflected in the first product. The "National Economic Development Plan" which was produced in 1960 and approved by the Cabinet did, however, constitute a good start in a most desirable direction. It is hoped by professional public administrators in Thailand, and especially by those who have concern and interest in the total budget process, that the planning capabilities of the government will continue to grow in the years ahead, and that comprehensive planning efforts will receive due political and executive support.

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Where Money speaks the truth is silent.

*Russian Proverb*

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