

negotiation in budget preparation

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Abbreviations and Acronyms

CABRI	Collaborative Africa Budget Reform Initiative
CBA	Central Budget Authority
DEDP	Department of Economic Planning and Development (Tanzania)
DFID	Department for International Development (UK)
FEZ	Financial and Economic Affairs Department of each ministry (The Netherlands)
IFAC	International Federation of Accountants
IPSASB	International Public Sector Accounting Standards Board
LGDK	Local Government Denmark
MOF	Ministry of Finance
MOFDP	Ministry of Finance and Development Planning (Lesotho)
MTEF	Medium-term Expenditure Framework
NAO	National Audit Office (UK)
NSGRP	National Strategy for Growth and Reduction of Poverty (Tanzania)
ODI	Overseas Development Institute (UK)
OECD	Organisation for Economic Co-operation and Development
PFM	Public Financial Management
POPP	President's Office, Planning and Privatisation (Tanzania)
SBAS	Strategic Budget Allocation System (Tanzania)
SBO	Senior Budget Official
UK	United Kingdom

Foreword

The budget is at the heart of public financial management (PFM). It is a key point of difference with private sector finance. In the public sector the absence of a credible budget has serious fiscal policy implications. So, whether you are in the developed or the developing world the budget can be more important than the accounts.

Most PFM professional studies focus on the technical aspects of budgeting. But fundamentally budgeting is a political process and there is much less analysis of the political environment and processes that underpins successful budgeting. We have seen in the USA how Government itself can be brought to the verge of closure over political disagreements about the budget.

This paper, kindly supported by Department for International Development (DFID), attempts to redress that balance. It looks at the political processes often hidden from view that shape all budget setting in the public sector.

The focus of the paper is budget setting in the developing world. This is a particularly under-studied area. But setting and achieving credible budgets is fundamental to donor confidence in country systems and an important element in the Public Expenditure and Financial Accountability (PEFA) coordinated by a steering group of leading donors, including the World Bank, the IMF, the EC and others.

The paper illustrates good practice. We have used case studies from a wide range of African countries – South Africa, Tanzania, Malawi, Kenya, Ghana, Lesotho – and contrasted that with experience from the Netherlands and Denmark. We hope readers will benefit from practical examples from developing countries.

We also include suggested improvements in the way countries can develop their own budget negotiation processes. This reflects lessons learnt from the case studies we have used but also our view of how best to resolve potential conflict or process issues.

CIPFA is committed to honouring its public interest mandate and extending the science of public finance. We see this as a contribution to that and another example of our support for PFM professionalisation around the World.

Alan Edwards
International Director
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Introduction

This study has evolved from CIPFA Whole System Approach volumes that take a holistic approach to public financial management (PFM) budgeting components.

Public financial management is defined as the *“the system by which financial resources are planned, directed and controlled to enable and influence the efficient and effective delivery of public service goals”*.¹ This study is concerned with the very specific aspects of budget preparation and negotiation that form an integral part of the PFM planning regime.

In the budget cycle - broadly Policy Review, Strategic Planning, Budget Preparation, Budget Execution, Accounting and Monitoring and Reporting and Audit - budget preparation has received considerable donor attention in the form of project support and academic policy consideration. This review limits itself to budget preparation, but acknowledges that negotiated relationships pervade many of the other elements of the cycle. Donors have placed considerable emphasis on the technical rather than the political aspects of budget behaviours. This review begins to address this imbalance.

An IFAC/IPSASB draft publication highlights the continuing importance of the budget to public sector accountability: *“It is still the case that globally the approved budget is the primary method by which the legislature exercises oversight and citizens and their elected representatives hold the government’s management financially accountable.”*²

The focus of this work is solely the budget preparation phase, where negotiation between the ministry of finance (and the ministry of planning as appropriate) and line (or spending) ministries is most obvious. Parliaments or legislative assemblies are the third actor in this process, but their consideration here is limited to their roles in respect of arbitration of the key central versus line ministry negotiation.

This study concentrates on developing countries in Africa, with some examples of practices elsewhere for context.

The overall purpose of this study is to focus on the process of budget preparation and negotiation in order to:

- improve understanding of the nature of interactions between line ministries and central finance departments in the course of preparing and agreeing the budget
- identify areas of difficulty and examples of good practice, and
- identify priorities for further investigation/research and recommend how best to take forward investigation/research and how best to encourage improvements in procedures.

CIPFA gratefully acknowledges the assistance of the Department for International Development (DFID), the Collaborative Africa Budget Reform Initiative (CABRI) and the UK Overseas Development Institute (ODI) in preparing this paper.

This paper consists of an examination of some key concepts, a literature review, and cases of African and other experiences, finishing with a summary of findings and recommendations for further work.

It is assumed throughout the paper that budget negotiations take place against a backdrop of limited resources available for distribution. The degree of these limitations and restrictions drive the competition for funds between budget entities and shape the central budget authority’s role in distributing resources.

¹ *Public Financial Management: A Whole System Approach* (CIPFA, 2010).

² *Key Characteristics of the Public Sector – Staff Draft* (International Public Sector Accounting Standards Board/International Federation of Accountants, 2010), p6.

Literature Review

Specific coverage of the technical detail of negotiation in budget preparation is sparse. Most commentators have focused on the political and parliamentary phase, with references in more general work in the field of political economy.

Politics of the Budget

Perhaps the most accessible overview of the politics of the budget process comes from Paulo de Renzio of Oxford University and the ODI.³ He states that there is growing recognition that public expenditure management is a political rather than simply a technocratic process. De Renzio draws attention to the complexities and uncertainties of the arena for senior budget officials:

“Senior budget officials (SBOs) work at the very centre of this complex environment, in that ‘twilight zone’ where priorities and pressures need to be balanced, and solutions need to be found for difficult problems, in the constant attempt to reconcile the demands of politics and technical efficiency.”

Norton and Elson⁴ (also quoted by De Renzio) highlight a number of key factors for consideration by budget participants in both budget preparation and execution:

- *“the formal structure of roles and responsibilities within the budget process*
- *the formal rules governing decision making, political choice and accountability within the public expenditure management system*
- *the networks of stakeholder power and influence (outside the formal allocation of roles and responsibilities) which influence the outcomes of the budget process*
- *incentives for action (covert as well as overt) affecting the decision making process of politicians and officials during the budget formulation and execution process*
- *the latitude for independent discretionary action of bureaucrats at all levels of the budget execution process, and*
- *the norms and values prevailing in key institutions within the budget formulation and execution process.”*

Norton and Elson clearly identify important attributes at the heart of this paper:

“As observed by most commentators the process of budget formulation in centralised systems generally revolves around a game whereby implementing agencies seek to increase their budget allocations by making a case in their bids for additional resources. The budget office in the Ministry of Finance has a general role of contesting these claims, and reducing the overall level of bids to a manageable level.”

They go on to identify the cabinet as the final arbiter in most circumstances.

³ De Renzio, P (2006) ‘Working in the Twilight Zone: Senior Budget Officials and the Politics of the Budget Process’, in *Bridging the Gap: From Policies to Budget*, the 3rd Annual CABRI Seminar publication, pp108-121.

⁴ Norton, A and Elson, D, *What’s Behind the Budget? Politics, Rights and Accountability in the Budget Process* (ODI, 2002).

Incremental rather than Rational Approaches

The starting point for the 'contest' is generally the level of the administrative unit's previous year's budget allocation. Norton and Elson and others⁵ indicate that this incrementalist approach to budgeting is found in all systems of budgeting to some degree.

Fozzard⁶ contrasts the rationalist approach whereby decision makers seek optimal solutions in the broad public interest (that appears to underpin most donors' assumptions of reality) with the "*muddling through*" by decision makers using a process of "*disjointed incrementalism*".⁷

In this passage Fozzard⁸ describes some of the behaviours implicit in the widely encountered incrementalist approach:

"Decision makers start from the status quo and seek to solve problems as they arise rather than identify opportunities; they identify appropriate goals and policies iteratively, rather than working systematically from clearly defined ends to identify the means; they assess a small number of similar policies rather than all conceivable options; they identify solutions that can be achieved by small steps rather than radical leaps in policy; they make decisions with reference to experience and the comparison of alternatives rather than theory; and they will test the validity of policy decisions with regard to the availability of superior solutions rather than ideal. In this way decision making is subject to bounded reality in which actors are satisficers rather than optimisers. Within these constraints, decision makers are expected to behave self-interestedly, or at best, take a 'partial view of the public interest' in which self-interest will have a preponderant interest. This self-interest will reflect the institutional role of each of the actors in the policy-making process and interactions between these actors will respect both formal procedural rules and informal social norms."

Schick⁹ picks up another aspect of budgetary informality that starts at the formation stage: "the government has two budgets: the public one that is presented to the parliament and the real one that determines which bills are paid and how much is actually spent." This highlights an important point for consideration here; if the budget is not real or credible, what incentives do participants have to negotiate or fight for something that has no chance of being implemented?

Managing the Political Process

De Renzio emphasises the need for budgetary officers to understand and manage political pressure (in his paper "Working in the Twilight zone..." see above) and goes beyond to stress the importance of good systems to regulate the budgetary process. The "*existence of strong systems allows for a better management of political pressures, and for promoting a more rational approach to policy-making as opposed to the constant fire-fighting that emerges when rules and systems are constantly disregarded*".¹⁰ Observing budget discipline through, for example, cabinet decision-making processes that involve political leaders at each stage of the budget process can incentivise better political commitment.

Schick¹¹ makes a strong case for budget discipline:

"Realism must also pervade budgeting, another arena that is often infected by pervasive informality. The budget presented to the parliament must be the one that can be implemented, not a political wish list that promises more than the government intends to spend. Moreover, agencies must inculcate the habits and ethic of spending according to the plans laid out in the budget. In other words the budget must be treated as an explicit contract. Only then does it make sense to convert the budget into an explicit contract."

5 For example, Fozzard, A, *The Basic Budget Problem – Approaches to Resource Allocation in the Public Sector and their Implications for Pro-Poor Budgeting* (ODI, 2001).

6 Ibid.

7 Fozzard quotes Lindblom, C E (1979) 'Still Muddling, not yet through', in *Public Administration Review* 39, pp517-526.

8 Fozzard (2001) Op Cit.

9 Schick, A (1998) 'Why Most Developing Countries Should Not Try New Zealand Reforms', in *World Bank Research Observer* volume 13, no.1, pp123-131.

10 De Renzio (2006) Op Cit.

11 Schick (1998) Op Cit.

Management of budget (and other) processes also requires proper prioritisation and sequencing of actions. Schick¹² (also quoted by De Renzio) emphasises that sustainable change should be founded on sound basic processes:

“Politicians and officials must concentrate on the basic process of public management. They must be able to control inputs before they are called upon to control outputs; they must be able to account for cash before they are asked to account for cost; they must abide by uniform rules before they are authorised to make their own rules; they must operate in integrated, centralised departments before being authorised to go it alone in autonomous agencies.”

This approach has been taken a step further through the work of a leading CIPFA consultant, Peter Brooke, around the ‘platform approach’, which recognises the need to build a step-by-step political consensus on public financial management capacity building. In Cambodia, one of the first examples of this approach in practice, the initial platform focused on the creation of *“a credible budget delivering a reliable and predictable resource to budget managers.”*¹³

DFID’s 2007 Briefing¹⁴ provides practical insights into how political factors and governance issues influence budgetary outcomes. It stresses ‘good enough’ reforms in public financial management that may be sufficient and can be sequenced over time rather than addressed all at once. Case studies revealed an important gap between formal systems and informal practices, such as clientism, patronage and rent seeking, and that dysfunctions and distortions occurred at all stages of the budget process. The briefing uses a 2004 case study of Malawi to highlight informal negotiation processes that ignore the medium-term expenditure framework (MTEF) as line ministries inflate their budgetary needs because the ministry of finance will cut budgets regardless of need. This and a number of other weaknesses concerning budget adoption, execution and oversight, result in a situation where the budget, as implemented, does not reflect the pro-poor focus of the PRSP.

The need for reciprocal budget negotiation understanding between ministries of finance and sector or line ministries is outlined for example in the health sector in a recent policy brief.¹⁵ Using cases of Ghana, Senegal and Uganda the paper outlines some particular areas for improvement on both sides, such as greater flexibility, willingness to listen and make opportunities for discussion from ministries of finance. Line ministries need to improve their evidential bases for increased budget support by linking indicators to specific budget items, focus on a smaller number of vital projects for funding and utilise high level staff with strong arbitration and negotiation skills as advocates for more funding.

12 Schick (1998) Op Cit.

13 DFID Briefing *A Platform Approach to Improving Public Financial Management* (Financial Accountability and Anti-Corruption Team, DFID, 2005).

14 DFID Briefing *Understanding the Politics of the Budget: What Drives Change in the Budget Process?* (Financial Accountability and Anti-Corruption Team, DFID, 2007).

15 Page 3 and 4, Clarke, G and Ostrowski, C (2009) *Improving Ministry of Health and Ministry of Finance Relationships for Increased Health Funding*. Global Health Initiative, Washington DC, USA

Fundamentals of Budget Negotiation

Experience in the field supported by discussions with former practitioners has led to the identification of two distinct stages in budget negotiation:

- **Stage One: technical process** based on an agreed procedure between line and central ministry (finance).
- **Stage Two: political process** involving budget committees, parliaments or public assemblies.

The key question throughout this paper is how to promote positive, efficient and effective negotiations that are neither threatening nor defensive and lead to credible, realistic budget setting. A combination of 'top-down' and 'bottom up' approaches with a reasonable balance is optimal. Objectivity is a key aim throughout this process.

CABRI has undertaken some important work on challenging the budget, which is an inherent part of the negotiation process. Fölscher defines the challenge function as *"someone asking whether the government is proposing to do the right things – and plans to do them right ... budget decisions represent a fusion of political and technical considerations and a distinction needs to be made between officials and elected office holders."*¹⁶ Accountability for the budget to the electorate means that guidance and choices about what is funded belongs to politicians. Officials have responsibility for advising ministers on technical considerations (costs, opportunity costs, options, effects, benefits, etc) but for not making decisions on what will be funded.

A second clear distinction has also to be made between the roles of line ministries as service providers (and sectoral expenders of funds) and central budget authorities (finance ministries) with wider fiscal responsibilities for public funds.

Stage One: Technical Process

The first or technical stage of the negotiation process has two key attributes:

- the content of the procedure – what is to be discussed, and
- the process itself – how it is to be discussed and by whom?

Depending on the country involved, there can be a number of participants at the technical stage, so it is difficult to be prescriptive, but these may include line ministry finance and sectoral departments, the ministry of finance or central budget authority and sectoral departments, and ministry of finance representatives within line ministries. The heads of each of these entities should be fully briefed and informed (but not overburdened with excessive information) to enable reasonable discussion and decision making. If there are ministries of planning and/or economy separate from the ministry of finance, there needs to be integration of capital and current budgets to ensure coherence.

The overall requirement is to establish the baseline budget, prepare a list of new proposals and set appropriate, affordable targets in the light of these considerations. This information can then be presented in stage two for political deliberation with a range of prioritised and costed options.

¹⁶ Fölscher, A (2006) 'Roles and Responsibilities in Challenging the Budget', in *Bridging the Gap: From Policies to Budget*, the 3rd Annual CABRI Seminar publication, pp126-141.

The baseline for the budget (essentially a projection based on current levels of spending) should be based on an established, robust and agreed methodology. It should allow for inflation, changes in the tax and demographic bases and other local factors. The role of baselines, indeed whether they are appropriate at all, depends on the type of process they are part of. If strong ceilings are set, spending ministries may not want to squeeze their scope for new spending by overstating baselines. Responsible behaviour can be rewarded by ministries being able to set baselines. If relaxed ceilings are allowed, spending ministries may try to exaggerate their baselines to position themselves better for increased funding.

In addition, where strong ceilings exist, the baseline can be drawn as committed or minimum expenditure without automatic uplift; this is noticeable in difficult economic circumstances.

It is logical for line ministries to be in the driving seat for the technical phase as they have experience of the delivery of public services and knowledge of forthcoming needs. Line ministries should be able to challenge baseline assumptions. They should also have carried out sufficient preparation to be aware of their needs and have robust information about where and how greater efficiency can be achieved.

New proposals requiring resources should be fully costed and demonstrate cost benefits and value for money. New proposals should also be clearly linked to the delivery of targets, and their impact on the achievement of targets assessed. They should be clearly prioritised to enable their incorporation into the budget, depending on the availability of resources.

It is helpful for all participants to abide by firm rules of budget discipline that are clear and transparent regarding process and purpose. This requires a genuine will to succeed in all participants. If the rules of negotiation are fair and adhered to, there should be mutual understanding of the questions that will be raised by both parties and the discussions will be balanced, with clear outcomes and no surprises.

Stage Two: Political Process

The disciplined outcomes of the technical stage will provide the political stage with reasoned information upon which to prioritise new proposals. An equivalent degree of political discipline is also required at this stage to recognise the parameters of budget reality within which the politicians have to operate. This discipline is much more difficult to achieve but should respect the technical positions arrived at under stage one.

It is important to distinguish the political and administrative activities undertaken by key actors in the budget preparation process. Setting and scrutiny of the baseline budget by the central budget authority and its impact on line ministries is essentially administrative, whilst the incorporation of new priorities and initiatives is primarily a political process.

This study focuses primarily on the technical processes in stage one.

The Role of the Central Budget Authority

The central budget authority (CBA) in most cases is (or is within) the Ministry of Finance, but the degree to which this institution also exercises strategic economic planning functions in addition varies considerably. The CBA was housed within the ministry of finance in 25 of the 26 countries covered by the CABRI survey, the exception being Liberia, where it was housed within the office of the chief executive (ie the president). In six of the surveyed countries, the title of the ministry housing the central budget authority incorporated 'economy' or 'planning', indicating a combined function with finance.

The overarching role of the CBA in budget negotiation (moving from the administrative to the political arena) can be summarised as follows:

- Develop the baseline.
- Transmit the baseline in due time to line ministries.
- Check the rigour of the baseline calculation used by line ministries (incorporation of assumptions, trends in service entitlement and usage, and recurrent costs arising from capital projects and asset use).

- Hear representations and priorities for new initiatives from line ministries.
- Adjust the baseline in the light of representations and harmonise across government.
- Present agreed final positions to parliament for political consideration.
- Formally authorise the budget for execution.

In behavioural terms, the CBA should be subject to budget discipline in the same way as all the other players. Within the envelopes that are technically justified, it should be fair and even-handed with all subsidiary line ministries. It should create the conditions and environment for line ministries to participate in the budget process in as open and transparent a way as possible.

A fundamental question arises - can CBAs be both participants and mediators in the budget process? Should such roles should be separated out in some way?

The reality of CBA involvement across Africa is that it varies greatly according to individual country constitutions and practices. In some scenarios (eg Ghana), the CBA is very strong and dominant; elsewhere (eg Mozambique), the CBA is dominated by the line ministries in the negotiation process.

It is difficult to prescribe all-embracing solutions to such varied political and cultural situations across Africa, but the practical observer should note that line ministries' superior knowledge of and proximity to service provision should be respected and tendencies by CBAs to over-control should be restrained. In many cases there is a power struggle that is resolved by prevailing forces that vary over time.

The Role of the Line Ministries

This review focuses on central government entities and on the negotiations between line ministries and CBAs. The role and prominence given to line ministries in the budget negotiation and agreement process is critical to the achievement of successful budget outcomes. The process will benefit from the participation of ministers and senior ministry leaders in the preparation of submissions and returns and in negotiations.

The ideal role of the line ministries can be summarised as to:

- challenge the assumptions of the budget baseline presented by the CBA (for example, the robustness of the underlying methodology and information base and whether inflation allowances are sufficient for sector needs)
- identify potential savings (by doing more for less or stopping doing things that are no longer relevant) and be prepared to action them
- make efforts to improve the quality of underlying data
- demonstrate the capacity of the sector to implement new initiatives on the scale proposed within a realistic set of demanding but achievable targets
- be open and transparent about the implications of budget reductions on service delivery
- take the lead in linking budget resources to public service outcomes (especially how much individual new initiatives contribute to strategic targets)
- be certain of their needs and priorities for the budget period and the realism of measures designed to increase resources and close any funding gaps, and
- prepare and prioritise a list of proposals for new activities that demonstrates full cost, cost benefits, and value for money.

The role of Subordinate Entities

As a matter of broad principle, the negotiating strategies of line ministries will differ little from those of sub-national bodies (states, regions, municipalities) and agencies, except in the tiers of government that have to be contended with. Depending on the flow of funds from the centre, there may be less budget credibility and 'buy-in' from sub-national entities and agencies. Denmark provides an example of collective bargaining by local government entities.

Cases

The following cases are drawn from several sources and attempt to relate the real experience of budget negotiation from a number of sources. CIPFA is grateful for the kind assistance of staff at CABRI, whose material forms the basis for much of this work. CABRI undertook a useful survey of budget practices and procedures of 26 African countries in 2008.

These cases pick out certain themes relating to budget preparation and negotiation determined in association with CABRI and ODI. We have supplemented this with material from countries where we currently have projects or recent experience. The ODI was also consulted and produced a number of publications that have proved valuable here.

Cases from the Developed World

The Netherlands

Budget preparation in the Netherlands is based on clearly defined objectives and a timetable that allows for proper discussion and analysis of the issues. It is a developed performance-oriented system that takes full account of policy priorities from the outset. In each ministry there is a financial and economic affairs department (FEZ), where financial controllers are based. The Dutch budget preparation arrangements recognise the tensions between policy officers and those that manage budgets. There is a clear distinction between the technical and the political aspects of the process. A budget memorandum is published and there are clear written communications between ministries and the Ministry of Finance within the budget preparation process. The budget timetable is well known and certain annual dates are recognised, in particular the third Tuesday of September, when the budget is presented to Parliament at a high-profile ceremony of the Queen's Speech.

The Netherlands represents a developed European system but has certain idiosyncrasies, such as the distinctive separation of the finance function into the FEZ departments with controller functions; in other European countries (notably the UK), these responsibilities are held as routine management functions by policy officers. The Dutch system appears to offer few opportunities for public interventions in advance of the Queen's Speech presentation – it may be that officials are well-attuned to the public needs and have intrinsic methods of absorbing opinions.

See Annex 2 for more details, including two perspectives on the budget negotiation process - one official, the other academic.

Denmark

Denmark operates a clear and straightforward budget preparation process. A key feature to note is the arrangement for negotiating with local authorities, who provide a substantial number of public services in the country. Responsibility for negotiating local taxation levels (and therefore the spending on locally provided services) is given to Local Government Denmark (LGDK), who deal with the CBA on the annual settlement on behalf of most local authorities. In practice, the authorities agree their positions in advance and LGDK representatives (drawn from the membership) collate and present a joint position for funding to the central authorities. This system saves time and multiplication of effort between individual authorities and the central administration.

See Annex 3 for more details.

Cases from the Developing World

These cases were selected from studies undertaken by CABRI and CIPFA. They represent a sub-set of Anglophone sub-Saharan African experiences available at the time of writing. Further work on Francophone and Lusophone countries is required to provide a more representative view.

South Africa

CABRI has close connections with the South African National Treasury. South Africa is a middle-income country with a sophisticated approach to budget preparation. It has introduced a number of public finance reforms since its transition to democracy began in 1994. The reforms have centred on the implementation of an MTEF using a three-year rolling spending plan for all levels of government. The reforms have attempted to “*change the incentives for budgetary actors, reducing the potential for budgetary games and improving planning practices to align policy with budgets and actual spending.*”¹⁷ The emphasis has been on broad institutional development of the budget process and its functions, not just technical or financial matters. Fölscher and Cole summarise the principles underpinning the reforms as follows:

- **“Comprehensiveness and integration.** *The main national budget framework coordinates, integrates and disciplines policy and budget processes for the country at national, provincial and, increasingly, at local level.*
- **Political oversight and a focus on policy priorities.** *Choices between priorities are political in the final instance. The South African system recognises this and structures the integration of political and administrative practices to ensure that funding choices align with the priorities of government, and that political oversight is reinforced.*
- **Using information strategically.** *The reform process systematically set out to improve the timeliness, quality and usefulness of information on the allocation and use of funds, both internally and externally, to improve public policy and funding choices and to enable accountability.*
- **Changing behaviour by changing incentives.** *Responsibility was devolved to spending departments for spending choices and use of funds within approved ceilings and against policy commitments.*
- **Ensuring budget stability and predictability while facilitating change at the margin.** *The budget process includes various mechanisms to manage uncertainty and maximise funding and policy predictability over the medium term, while promoting alignment with policies at the margin, through the use of rolling baselines, a contingency reserve and a disciplined budget process, amongst other measures.”*

A special feature of South African budget planning and negotiation is the practice of making spending departments start their budget preparation from their existing budget baseline envelopes without any initial adjustments to their ceilings. They can only fund new policies if they are able to convince cabinet (or provincial executive councils) to allocate a share of nationally available additional funds following macro-economic adjustments to forecasts or fiscal targets, or from savings in their existing baselines. “This practice ... has the merits of imposing planning discipline and providing a stable medium term funding and policy horizon.”¹⁸

All budget systems are dynamic and in a state of evolution, as exemplified by CABRI, Fölscher and Cole, in 2006, which looked at the translation of political objectives into sound policy proposals. The review recognised the challenges and evolving issues for South Africa; in particular:

- the alignment of policy and budget between national, provincial and local governments
- the propensity for spending bodies to develop new policies in order to receive additional funds, regardless of priority
- lack of capacity throughout government to evaluate policies for funding (and initiatives against departmental mandates)
- lack of long-term consideration of priorities, policies and funding
- inadequate quality and use of performance information and an ineffective monitoring system

¹⁷ Fölscher, A and Cole, N, South Africa: *Transition to Democracy Offers Opportunity for Whole System Reform* (CABRI, 2004).

¹⁸ Ibid.

- the absence of a formal evaluation mechanism, such as a public expenditure review in the budget system, partly due to congestion within the budget process
- lack of capacity to implement policy (bureaucratic failure to deliver cabinet decisions), and
- inadequate formal mechanisms for consultation and feedback from the public.¹⁹

Tanzania

The need for integration of current and capital budgets is widely recognised as critical to effective budget planning and negotiation; Tanzania presents an example of some progress:

“Institutional arrangements for co-ordinating the recurrent and development budgets prior to 1997

The Budget Guidelines used to be prepared jointly by the MOF and the President’s Office, Planning and Privatisation (POPP). However, the MOF had jurisdiction over the recurrent budget, while the POPP had jurisdiction over the development budget. This set up meant having two divisions, one in each institution, dealing with a component of the government budget. Difficulties in co-ordination prompted the Tanzanian government to merge the co-ordination and monitoring division on the POPP with the budget division in the MOF. This was the first step towards budget integration.”²⁰

The move towards performance-based budgeting in Africa has implications for the nature of budget negotiations in terms of the wider perception of policy coverage, outputs and outcomes. A broader perspective on this has been noted in Tanzania where the importance of budget discussions and negotiations as dialogue and review has come to the fore:

“Firstly that the budget process provides a very important, annual and fixed cycle of review and decision-making that is the key vehicle not only for resource allocation, but also for the design of operational policies and dialogue. Secondly, that this process belongs not to the Ministry of Finance, but to all of the government and the people of Tanzania.”²¹

Ntambi goes on to describe the performance budgeting developed in Tanzania in 2005/06 under the strategic umbrella of the National Strategy for Growth and Reduction of Poverty (NSGRP). Among a number of innovations in budget preparation was the strengthening of domestic rather than donor representation in budget preparation. Greater government ownership and accountability for the strategy has been achieved. Outcomes rather than inputs are a major focus.

The Strategic Budget Allocation System (SBAS) is a software tool that has been used in Tanzania to enable budget information to be pooled and aggregated between line ministries (and local authorities) and central budget agencies for various analytical purposes, in particular linking spending with objectives. The SBAS is used in the preparation of budget guidelines and the resource ceilings that are allocated to institutions on the basis of strategic outcome targets.

Moves towards performance budgeting have also improved and structured the forums for dialogue with donors and other stakeholders from civil society and other research organisations. The NSGRP provides for a main working group and cluster working groups as well as sector and thematic working groups for comprehensive coverage of policy issues.

Tanzania has, as have other countries, experimented with a number of budget preparation reforms but there is still some way to go before their realisation feeds through into meaningful benefits in terms of service delivery. The lack of public sector professional accounting expertise in country will not ease the situation.

19 Fölscher, A and Cole, N (2006) ‘From Policy Agendas to Policies in South Africa’, in *Bridging the Gap: From Policies to Budget*, the 3rd Annual CABRI Seminar publication, pp37-54.

20 Saidi, R and Hamisi, S (2005) ‘Co-ordinating Recurrent and Investment Spending: The Case of Tanzania’, in *Managing Complexity: From Fragmentation to Co-ordination*, the 2nd Annual CABRI Seminar publication, pp22-33.

21 Ntambi, N (2006) ‘Strengthening Policy and Budget Linkage in Tanzania through the Strategic Budget Allocation System’, in *Bridging the Gap: From Policies to Budget*, the 3rd Annual CABRI Seminar publication, pp76-88.

Malawi

Malawi provides an example of the integration and separation of finance and planning ministries (the Ministry of Finance (MOF) and the Department of Economic Planning and Development (DEPD)) and some of the complexities that can emerge. Malawi's dual budgeting system comprised the revenue budget (recurrent spending) and the development budget (public sector investment). Efforts were made to ensure that the revenue budget absorbed all the recurrent costs arising from investment projects. The DEDP prepared the initial economic assumptions upon which the MOF built the expenditure ceilings for particular government ministries and departments. The DEDP coordinated the public sector investment programme which forms the major part of the development budget.

In 1997/98 the MOF and the DEPD merged with a view to translating development policy formulation into action through the budget and bring about the integration of recurrent and development budgets.

*"During the merger, co-ordination improved as mutual consultation was easy and the different principles driving the work of the two partners were better understood. The war of words about who was responsible for the development budget died and the integration of policy planning, project identification and the inclusion of priority projects in budget appropriations improved."*²²

More could have been achieved if the merged entity (particularly the budget and development divisions) had been located in a single building and had some duplication of functions addressed (eg the retention of the economic affairs section of the MOF). The merger could also have allowed for the redeployment of surplus staff into line ministry planning sections to develop capacity there.

The MOF and DEDP were *"de-linked again in 1998/99 due to a change in government policy and the influence of political and economic factors"*.²³ This demonstrates the vulnerability of technical rationales to political factors and is regarded as something of a retrograde step. The budgetary tensions between ministries of finance and ministries of economy planning are apparent in many, particularly post-Soviet, countries.

Kenya

Kenya provides an example of a country where there is considerable 'work in progress' towards reforming the budget process. This desire for reform has arisen from an attempt to bridge the disconnect between national policy goals and actual spending. There were many piecemeal attempts to reform budget planning in Kenya during the 1990s. The budget process was inherently weak, shrouded in secrecy and rooted in a controlled economy.

In the early 2000s, an MTEF was introduced, which involved *"a consultative budget process that included public hearings"*.²⁴ The results of public hearings feed final sector reports that form the basis of annual and medium-term estimates. In addition, the MTEF process provides a clearer framework with more public documentation for the detailed preparation of annual budget estimates.

However, a number of fundamental challenges remain unresolved by the introduction of an MTEF process that has yet to deliver tangible benefits. The absence of a clear prioritisation framework presents a continuing problem for senior budget officials responding to spending agency requests for funding as they provide advice to cabinet on allocations. Another issue is the continued rigidity of ministries' preferences in favour of spending on staff cost that means little resource is available for other items. Khaisani and Makau note that *"ministries themselves do not have appropriate incentives to make choices between existing costs and new spending programmes."* Costing capacity is lacking. Many projects are still stalled as a result.

²² Simwaka, C (2005) 'Structures, Institutions and Legal Frameworks: The Case of Malawi', in *Managing Complexity: From Fragmentation to Co-ordination*, the 2nd Annual CABRI Seminar publication, pp35-42.

²³ Ibid.

²⁴ Khasiani, K and Makau, P (2006) 'Managing People through Systems: Improving Incentives for Strategic Budgeting in Kenya', in *Bridging the Gap: From Policies to Budget*, the 3rd Annual CABRI Seminar publication, pp37-54

Despite having an MTEF in place, links between budget, policy and planning are weak and persist in a budget process that focuses on inputs, making it difficult to measure performance and link to plans and policies. This has driven the move towards programme-based budgeting from 2007. An organic budget law was drafted, setting out fundamental principles for the process, designed to enhance transparency and accountability and incorporating performance management, measurement and indicators.²⁵ Kenya is at an early stage of developing performance-based budgeting – budget planning processes will need to include clarity of objective and performance target setting based on an effective performance information system overseen by a parliament that demands good performance.

Ghana

The budget preparation process in Ghana has been subject to considerable and rigorous international scrutiny, most particularly by Tony Killick relating to 2003/04.²⁶ Killick reveals major failings at the time of writing, namely a weak (*“essentially ritualistic”*) budget process and a major *“democratic deficit”* in budgetary processes, and that these problems are compounded by system deficiencies in the public service. He draws particular attention to *“the closed, non-transparent nature of the budget preparation process”* that largely excludes public and outside interests from participation. Parliament has insufficient time to scrutinise the budget and has little expertise available to consider the budget properly; *“Parliamentary scrutiny tends to be hurried, superficial and partisan.”*²⁷ A *“need to know”* information restriction culture among civil servants has prevailed, which is complemented by low public awareness and apathy over budget matters. He likens it to a patrimonial system that prioritises the protection of civil service jobs and squeezes expenditure addressing developmental objectives.

The situation has evolved somewhat since Killick’s original work but many of the fundamental criticisms still resonate. The budget-setting process remains top down (especially for resource allocation) but some measures have been taken to select priority programmes from the bottom up at sector level. The period for budget preparation has been extended to take in a full year (the process now begins in January).²⁸

There is also greater openness to the outside world through invitations in the press to the general public, civil society and private sector groups to submit memoranda as inputs to the budget of specific ministries. They are also able to comment on the better use of public funds. The degree of influence such submissions have remains to be seen.

Adjei-Mensah in 2007 noted some improvements, but also variability among ministries, departments and agencies in the degree to which they had prepared detailed, costed, sequenced and prioritised strategic planning documents. This has an obvious impact on the consistency of budget planning across government. *“Not all ministries have changed their approach to budgeting equally.”*²⁹ Incidentally, such variability has also been observed in developed countries such as the UK (where the Ministry of Defence has a poor record of budget preparedness).

In 2007, 50% of government revenue raised in Ghana was spent on salary and related costs, a figure some 15% higher than the convergence criteria for the Anglophone West Africa monetary zone. This demonstrated that the budgetary protection afforded to civil service jobs remained.

Although an MTEF approach has been set up, it is not uniformly applied by all ministries, departments and agencies. Many ministries still regard the budget as an annual exercise and begin internal planning processes in advance of the arrival of budgetary ceilings and apply rolling budget techniques. There is also variable application of capital funding over the medium term.

²⁵ Ibid, pp148-149.

²⁶ Killick, T, *The Politics of Ghana’s Budgetary System* (CDD/ODI Policy Brief No. 2, Ghana Center for Democratic Development, 2005).

²⁷ Ibid, p2.

²⁸ Adjei-Mensah, K (2007) ‘Ghana: Process Discipline and Policy Effectiveness Drive the New Budget Process’, in *Are We Asking the Right Questions? Embedding a Medium-term Perspective in Budgeting*, the 4th Annual CABRI Seminar publication, pp146-155.

²⁹ Ibid, p154.

Recent discussions with finance officials from Ghana indicated that these issues remain:

- the timing of budget ceiling circulation
- greater public stakeholder inclusion
- late agreement of project financing, and
- political power and influence differentials between ministries.

Lesotho

Lesotho is a small, landlocked southern African mountain country relying heavily on subsistence agriculture. It has a population of 1.8 million people. Many of its political, administrative and cultural attributes reflect its British colonial relationships as a protectorate.

In Lesotho the budgeting negotiation and preparation process is dominated by the Ministry of Finance and Development Planning (MOFDP). The financial year runs from 1 April to 31 March. The budget timetable is dominated by the macro-economic phase and in particular with the preparation of a fiscal framework paper by the Department of Economic Policy within the MOFDP. The macro-economic phase of budget preparation begins in April each year and lasts until October. As with other aspects of financial management in country, there are some problems with the reliability of statistical data to underpin the budget. This has the effect of compressing the timetable available for negotiation between ministries and the MOFDP.

The budget department of the MOFDP derives expenditure ceilings for each ministry using the macro-economic data provided by the Department of Economic Policy. These ceilings are approved by the Cabinet Budget Committee (chaired by the deputy prime minister).

The expenditure ceilings are given to the ministries in October to enable the ministries to produce their budget framework papers. These papers link national policy and planning priorities (ultimately to the Vision 20:20 framework) to ministries' own spending aspirations. They include, for each ministry:

- vision, mission, objectives
- review of ministry performance
- ministry policies and expenditure requirements
- conclusions.

The analysis apparently includes links to the poverty reduction strategy and an assessment of programme outcome indicators.

After the budget framework papers are submitted by the ministries to the MOFDP budget department, a sector hearing is held in camera for each ministry. Ministries are represented usually by their principal secretary and their budget team; the MOFDP by the budget directors. After this meeting the MOFDP prepares detailed line item estimates of expenditure, which become the subject for further discussion with the principal secretary (with his finance team and the budget directors).

Once agreement is reached between the ministry and the MOFDP (usually by December), the Cabinet Budget Committee receives the budget papers. The committee has the ultimate powers to arbitrate and resolve disputes between ministries. It frequently has to make hard choices about spending priorities and the allocation of deficits.

The budget preparation process is entirely closed and internal to the civil service until the minister of finance rises to make the budget speech in parliament (in 2011 this was on 14 February). Thus there is currently very little opportunity for civil society stakeholders to participate in budgetary negotiations at times when the outcomes could be influenced. It is notable that the minister of finance does appear at a public meeting immediately after presenting his budget to the parliament and is 'roasted' by various interested parties.

There have been recent (February 2011) calls by other ministers for public involvement in the budget process (minister of communications in Lesotho News, 7 February 2011). These may partially be resolved by the full adoption of the MTEF, which should allow for more consultation with stakeholders. Currently a three-year perspective is presented to parliament, but budget officials readily admit that in reality it is an annual budget with two forward indicative years attached.

Performance budgeting is at a pilot stage with donor support which leads to question marks over the quality and comprehensiveness of some of the submissions in budget framework papers that underpin ministries' budget submissions. As with three-year submissions in the MTEF format, there remains a danger that presentation will take precedence over substance.

Cases Summary

The cases examined here form a small sub-set of African experiences in budget negotiation. What is evident is the diversity encountered. Each country has evolved a different approach to what is essentially a very similar situation: how to negotiate a national budget. It is evident, too, that this is a continuously evolving area within public financial management; reform processes are under way and are at different stages in all countries. Variability in approaches to reforming budgeting has also been observed between ministries in the same country; this will ultimately impact on their capacity to negotiate with central budget authorities.

It is beyond the scope of this paper to suggest whether reforms are being driven by donors with or without partner country enthusiasm but the institutional frameworks within which budget negotiations are set do reflect donor trends. MTEFs and performance-oriented budgeting (for example) are being introduced in many countries but the benefits of such advanced techniques have yet to be fully felt. The relationship between introducing advanced and somewhat complex techniques and refining basic practices can be tense; the more so as partner governments have a natural inclination to search out the most advanced and up-to-date techniques and advice available. The overall effect can be a rush to complexity and confusion in budget negotiations rather than a full realisation of the desired benefits of a particular scheme. The effects of this vary between countries.

These cases also highlight the implications of two important and related integration issues. The degree of integration between the MOF and the economic planning ministries and their functions can affect the budget negotiations (and thus preparation) due to the different perspectives that become entrenched institutionally. Where the macro-economic planning perspectives are integrated fully within the MOF, the inherent tensions and administrative barriers tend to be eased. These tensions are exacerbated when responsibility for capital and current budgets are split; in some cases, capital budgets can be the responsibility of economic planning entities whereas current budgets come under the remit of finance ministries.

The cases have highlighted an instance of negotiated preferences for ministerial and agency spending on salaries and personnel costs rather than on goods and services. This phenomenon has been observed elsewhere in Africa too, and raises questions as to what is the underlying purpose of the public budget: to build administrative structures or to deliver improving public services?

Budget Negotiation Processes

The aim of this section is to review the features of budget negotiation processes in the light of the cases using the thematic lenses of:

- principle
- reality
- resolution.

Informing the Process

Principle

Budget guidance and circulars setting out the baseline or initial envelopes should be informed by accurate and up-to-date macro-economic information and projections of future trends. There is also an onus on line or service ministries to contribute their best available information on service delivery costs and trends, informed by the detail that they have access to. The idea that ‘information is power’ can easily distort relationships between budget negotiation parties. The intention should ideally be for a level playing field of an agreed information base upon which to build trust-based solutions.

Developing the baseline is the prime initial phase of budget negotiation, from which all else flows. Information quality, availability and timeliness are critical. A budget built on poor information is unlikely to be reliable and meaningful.

The degree of detail and abstraction demanded during the budget process is also a factor. In some countries, participants (particularly at the political level) can be burdened with excessive, line item detail that means participants miss important aggregate trends.

Reality

Information asymmetry occurs in some countries far more than in others (and at different historical periods). For example, in Mozambique in the period up to 2005 the information and thus much of the power in budget discussions lay with the line ministries rather than the central budget authority (Hodges and Tibana, 2004³⁰). A good example of information overload and line item focus is in Russia, where managers and politicians have to grapple with literally piles of paperwork to examine the budget; aggregate or summary information appropriate to their span of control is not available.

In some African countries there are serious question marks over the quality of initial budget data, which raise doubts as to the conclusions that arise from their inclusion. The IT consulting mantra ‘garbage in, garbage out’ resonates in such cases.

30 Hodges, T and Tibana, R (2004) *The Political Economy of the Budget Process in Mozambique* Oxford Policy management, Oxford

Resolution

Establishing an agreed base of budget information can be done. In the UK, for example, budget assumptions are audited by the National Audit Office (the NAO also has a policy of agreeing all factual information in its reports with the client ministry in advance of Public Accounts Committee hearings to avoid wasting valuable hearing time on determining facts).

The Reasonableness of the Budget Timetable

Principle

There are no absolute definitions of the reasonableness of budget timetables. In essence it should be sufficient to allow for robust information gathering and its transmission to ministries and agencies at the various stages. There should be sufficient but not too much time for analysis and negotiation in a disciplined manner. The timetable should allow for a transparent and logical sequence of negotiations to flow in an orderly fashion.

There may be more demanding time considerations for budget negotiations and discussions if more advanced techniques, such as programme budgeting, have been adopted. These involve consideration of programme objectives and the setting of measurement indicators to assess whether they have been achieved. Additional time should be allowed for proper consideration of these items.

Reality

Findings from the CABRI survey³¹ show a range of budget preparation durations from two to 11 months. In some cases the negotiations, if any meaningful ones take place, are extremely time constrained. Empirically some participants complain of insufficient time available for line ministries to respond to baseline budgets and insufficient attention being given to revenue forecasting.

Resolution

Medium-term budget frameworks over a three-year horizon can be useful in spreading the timing burden, as can proper implementation of ICT facilities to assist in the compilation and analysis of figures. Again, an even-handed approach between finance and line ministries would assist in building trust to deliver a quality budget.

Resolution of this aspect can be very location specific: some remote and ill-equipped locations will have poor communications (online or even telephone support) and therefore require more time to turn around budget information requests.

Budget Hearings/Defence

Principle

Budget hearings provide an opportunity for wider coalitions of interest to examine the detail of budget submissions in a controlled setting. Ideally this is done with a wide range of interests present, including the public, but there may be internal hearings in addition. The format of such hearings can vary, but should include a presentation of the main features of the budget (including objectives and appropriate options/priorities) and provide the opportunity for questions and answers, allowing the presenting department to defend its budget position. Ideally the presentations will be neutral and technical and the responses non-confrontational.

31 CABRI and the African Development Bank (2008) *Budget Practices and Procedures in Africa 2008*, CABRI, South Africa.

Reality

The reality in several West African states (notably Nigeria and Ghana) is that budget hearings are frequently not technical but provide an opportunity for confrontation between CBAs and line ministries. In Nigeria, there are three levels of budget defence:

- at the Ministry of Finance and National Planning
- before the Presidential Committee, and
- before the National Assembly.

In Ghana budget hearings are held in closed session without any public opportunity for interaction. The perception by some line ministries in Ghana as presented to the researcher informally has been that the balance of power in these hearings is against them and that this affects their approach to these events. There are some good examples from developed countries of consensual engagement such as in Denmark over the local provision of services but even there there is potentially a residual element of budget negotiation that takes place in private, away from public scrutiny.

Resolution

If open and reported widely, budget hearings can be a useful way of disseminating government financial plans to a wider audience. The hearings require appropriate stage management, careful planning and a consensus on their scope and content. Writing down the rules of engagement in advance would be a good step forward for some countries.

Negotiable Areas (prioritising savings and new spending)

Principle

Despite some theoretical advances in budgeting theory, incremental approaches remain the norm. Thus in most practical instances the scope for negotiation is limited to decisions about the potential for making savings and new spending.

Decisions on savings ideally should be based on cost-benefit analysis and value for money considerations (focusing on 'economy' aspects but including consideration of efficiency and effectiveness – the three Es). Much here depends on the political will of ministries to contend realistically with issues of over-manning and underperformance. In some developed countries, there are global expectations for 'natural' levels of efficiency savings which should be achieved organically; for example, the continuous introduction of information technology savings of 2-3% per annum are built into UK spending estimates. Decisions on when to stop spending on things that are no longer important need to be reflected, too.

The prioritisation of new spending plans should be based in the technical stage of the process on line ministries' assessment of spending need, which is formed from their close proximity and understanding of the particular sector-specific policy attributes of the ministry. This deep knowledge should be respected by central budget authorities, who are far more distant from the action. Sector-specialist units in ministries of finance can act as a bridge to this understanding. Line ministries are responsible for identifying and priority ranking areas for new spending. Where programme budgeting has been introduced, the spending programme is a natural focus for such activity.

Practice

The variety of practice in negotiable areas is considerable. Focus varies from the rational to the idiosyncratic. Many public sector budgets in African countries are dominated by staff numbers, so headcount and payroll dominate consideration. Budgets are skewed towards payroll so that goods and equipment receive little consideration and the ability to deliver public services is severely hampered (see Mozambique).

It is often tempting for line ministries to be sluggish in stopping spending on items that are no longer important or necessary; this is an implicit danger of incrementalism.

New spending initiatives can be promoted on a number of idiosyncratic bases reflecting political interests that are remote from priorities (especially pro-poor ones).

Resolution

The process of budget negotiation should include explicit attention to itemising the detail to be discussed, including:

- specification of service and financing objectives and strategies
- reality of assumptions of revenue from non-tax sources (donors, fees and charges)
- baseline calculation rigour (and efforts to find savings)
- the extent to which new initiatives contribute to strategic objectives and targets
- capacity to implement new objectives
- priority of individual new initiatives in relation to funding limits
- impact of this prioritisation on the achievement of strategic objectives
- realism of measures to increase resources and close any funding gaps
- agreement of budget submission for the year in question with medium-term aggregation in the MTEF (if appropriate).

The Political Conclusion to Negotiations

Once the technical stage has been completed, budgets are presented to parliament/legislative assembly/executive for ratification and adoption. In principle, any decisions on priorities will need to be reflected in the final version for ratification. Sufficient time needs to be allowed for reflection and debate (this is an issue raised in Ghana, for instance).

The issue of the continuing budget discipline from the technical to the political stage is important. Politicians need to have some understanding of the technical negotiation processes that have resulted in the budget presented to them and what the implications are of overriding technical decisions. Clearly the budget has to reflect political considerations and preferences, but there has to be recognition of the scope for manoeuvre allowed for at the technical stage.

In times of fiscal constraint when budget reductions become a reality, achieving value for money across government becomes a target in itself. Decisions on where to focus savings, preserve spending and target new priorities are highly political and need to be as transparent as possible.

Parliament (via the supreme audit institution) and the central budget authority should monitor the relationship between the agreed final budget and the actual outturn figures for revenue and expenditure at the year end and act on the findings. Does the audit opinion indicate that money has been spent according to political will? Consideration could be given to rewarding those ministries, departments and agencies that consistently achieve revenue and expenditure close to budget submission. Such rewards need not necessarily be financial, but could include a more permissive and flexible environment for those ministries demonstrating sufficient discipline in practice.

Priorities for Further Research

Balancing and Influencing Facets in Budget Negotiation

Budget negotiation takes place in a complex environment that comprises a number of different extremes, and ranges in between, that occur in different circumstances and change over time in different countries (and perhaps within institutions and places in sub-national situations). To a large degree, these facets are socially, culturally and historically constrained; they succeed or fail in country-specific circumstances and at different moments over time. We³² have attempted to identify the main issues that influence or are influenced by the negotiation process in relation to the cases encountered. Inevitably this is a preliminary sweep over this terrain, and these facets will merit greater attention in the future. This list is presented in order of priority.

1. The balance between incrementalism and zero base.

Incrementalism, although widely frowned upon as a poor budget planning method, is widely used in practice. For some stable services, when inflation can be the only material influence on the cost base, there is more of a rationale for an incremental approach. Zero based budgeting is an ideal that is rarely achieved, particularly as it can demand much effort to achieve. Baseline calculations are a form of compromise that bring previous years' figures into play in a more sophisticated way than incrementalism, depending on what is achieved. South Africa has some interesting experience of baseline calculation that could be mirrored elsewhere in the continent.

2. The balance between a cooperative and a combative approach.

The cooperative approach to negotiation is an ideal that is rarely achieved but is most exemplified in Africa by South Africa, which has a mature and relatively sophisticated approach. Combative or confrontational approaches, where budgets are defended in hostile environments can be more dysfunctional. However, there is a need to stimulate participation and engagement so some robust debate and discussion of budgets can be an advantage. The aim must be for the stimulus to be positive enough for action but not destructive of ambition.

3. The balance between technical formulation and policy influence/political engagement.

This paper has focused on the technical end of the budget spectrum but the experience of Malawi shows the impact of the political world over the technical (when the economic planning and finance functions were merged and subsequently demerged). Another aspect here is the danger that the political stage of budget formulation will override or ignore the technical progress made and result in sub-optimal outcomes.

³² Review of this paper by Peter Brooke, January 2011, and subsequent discussions with Stephen Sharples from DFID.

4. The balance between control and positive incentives.

In some circumstances, the need for sound internal control can result in excessively rigid and restrictive imposition of controls and limits over budget plans (and other aspects of public financial management, too). Spending departments often respond well to incentives such as flexibility to vire between subheads and retain year-end surpluses. An investigation of the appropriate and workable balance between control and incentives would be useful at the budget planning and execution stages.

5. The balance between control of inputs and funding of outputs.

Funding of outputs (and even higher-level outcomes) is a feature of performance-oriented budgeting, an approach that is gaining momentum across the continent. The balance in professional capacity required to deliver and adopt straightforward or sophisticated techniques merits further investigation. The natural desire amongst governments to adopt the most modern budgetary techniques has to be tempered by a realistic assessment of capacity at the central budget authority and the spending ministries to implement the practicalities. Budget formulation systems must move to achieving both these elements.

6. The balance between detail and strategic focus.

A tradition of detailed line-item budgeting is hard to break but can be achieved as greater sophistication is developed. In some countries, the volume of budget material presented to parliament can be daunting and result in a widespread inability to absorb the content. Consideration of the users of budget material can extend to the preparation of simplified reports explaining budget trends and wider implications. Meeting the different information needs at different levels of the organisation and outside to the wider public is an interesting area for examination.

7. The balance between getting things done and holding to account (the question of trust).

This refers to a fundamental management issue arising from budget formulation and extending to other parts of the budget cycle. The assumption is that the budget will create an environment whereby planned activities will be implemented in an accountable way. The budget planning apparatus should be fully accountable but not restrictive. Both main parties to the negotiations should trust each other and agree to be bound by the ultimate objectives of the budget that pivot around public service improvement and delivery.

8. The balance between openness and security of information.

There appears to be quite a breadth of experience across the countries reviewed here in terms of openness and public involvement in budget planning and influencing processes. In South Africa there is quite a high degree of public involvement during the negotiation phase which contrasts with the situation in Ghana.

9. The balance between service delivery and overlapping negotiation processes.

There is a danger that overlapping negotiation processes, above and beyond the inter-ministerial conflicts between ministries of finance and ministries of planning and economics, can hamper the ability of service delivery ministries or agencies to achieve much. If there are too many separate and constricting separate controls (outside the budget framework), they may not be co-ordinated and can act in contradictory ways to undermine the ability of ministries to deliver services and be held accountable for their activities. Examples of such negotiation processes include staff number controls, separate maintenance budgets and purchasing or procurement agency controls.

10. The influence of off-budget funds on budget negotiation.

In some countries substantial amounts of donor funding does not use partner government channels and is not included in the budget even though it may fund public service provision. Developed country budgeting techniques have not evolved to allow for this and thus capacity development programmes have not recognised the problem. Budget negotiations may be skewed if different ministries receive greater or lesser amounts of budget support or different amounts of capital or revenue funding (if donors are known to offer more capital support, partner countries' negotiations with them can adjust accordingly). Fungibility may also be an issue here if there are differentials in donor spending preferences and efforts to absorb additional funds in creative ways.

11. Other areas to consider for further research.

This study is primarily desk-based using materials generated for other purposes. In retrospect it may have been preferable to include more material derived from specifically targeted fieldwork in country with budget officials at central and line ministry levels.

This work has focused on the technical aspects of budget negotiation. The political side might bear more empirical scrutiny but the diversity of experience there is likely to be considerable.

The role of donors in budget negotiation is another area to consider more fully. This is particularly important where general budget support is prevalent and countries are heavily reliant on donor financing. Donors can influence the shape of budgets in some situations but it can be easy to over-emphasise their influence. In some countries, there are large numbers of donors active in general budget support (eg 19 in Mozambique): it might be interesting to evaluate the effectiveness of donor budget interventions in relation to the numbers involved; are many or few better? There are linkages to the debates on capacity development (and professionalisation) currently live within the OECD Development Assistance Committee following the Paris and Accra accords; these raise the question of balance between country-led needs and donor interventions and subsequent accountability issues.

The focus of this study has been on the budget preparation phase. There may well be interesting negotiation issues at later stages of the budget cycle; ie with links to budget execution, budget outturns and pro-poor spending (eg the achievement of poverty reduction strategies) and service delivery improvement. Does the quality of spending reflect the quality of planning and negotiation? Are lessons learned and fed back into planning for future budget cycles and integrated in medium-term perspectives?

Further areas to consider for further research are:

- budget information quality
- the benefits of good cash budgeting
- appropriateness of accrual accounting and budgeting
- balancing top-down and bottom-up approaches
- inter-ministerial exhortations and incentives to generate and return additional revenues
- impacts of different cultural and colonial traditions, legal and administrative systems (such as French, Spanish and Portuguese)
- the appropriateness of a move to programme budgeting, and
- practical issues in relation to the MTEF.

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Annexes

Annex 1: Terms of Reference

Annex 2: Case Study Additional Material – The Netherlands

Annex 3: Case Study Additional Material – Denmark

Annex 1: Terms of Reference

DFID Accountable Grant Arrangement

Project Brief: Budget Preparation and Negotiation

Project Ref.	DF 112
Project Title	PFM International Architecture: Budget Preparation and Negotiation
Planned Output	Detailed examination of key issues arising from the PFM international architecture (institutions, functions and processes) that influence the effectiveness of budget preparation/negotiation at country level.
Project Mandate	The project mandate derives from the Accountable Grant Arrangement AG5106, DFID MS code 729628054, entered into between CIPFA and DFID in April 2008.
Timescale	Delivery of the planned output should be completed to client quality standards by 31 March 2011.

Background and Context

1. DFID and CIPFA share common objectives related to international development, and work in pursuit of these, financed by DFID, has been incorporated into an Accountable Grant Arrangement between the two bodies. The arrangement came into effect on 1 April 2008 and runs until 31 March 2011. The goal of the arrangement is to have international PFM systems contributing more effectively to poverty reduction, and its purpose is to strengthen the role and impact of the international PFM system. Five objectives have been set under the arrangement:
 - a. Objective 1: Strengthen the PFM international architecture.
 - b. Objective 2: Contribute to improving international public sector accounting and auditing standards in developing countries.
 - c. Objective 3: Develop capacity to achieve improved public financial management in developing countries.
 - d. Objective 4: Raise awareness in the UK about the importance of DFID's work on public financial management for poverty reduction.
 - e. Objective 5: Provide technical advice to inform DFID policy development and evaluation.

Budget Preparation and Negotiation

2. The process architecture of the whole system approach includes a holistic description of all budget components. An important next step is to examine how the budget is prepared and negotiated in practice between the ministry of finance and the budget entity with responsibility to deliver the public goods or services (usually the line ministry). As well as government actors, taxpayers, donors and service recipients are all interested in the process and outcomes of these negotiations.
3. The purposes of this project are to:
 - improve understanding of the nature of interactions (in African developing countries) between line ministries and central finance ministries in the course of budget preparation and agreement
 - identify examples of good practice and areas of difficulty, and
 - identify priorities further research and investigation, recommend how best to take this forward and how to encourage and promote procedural improvements.
4. Behaviours and incentives of the principal budget participants (ministries of finance and line ministries) are the main emphasis of this work. Do line ministries regard budget preparation as a mundane administrative task to achieve incremental increases in planned totals, or as a genuine opportunity to achieve necessary funding for key service targets? Are they prepared to reflect genuine service delivery conditions in their budget proposals, or merely to add an inflationary factor to prior year totals? Are there perverse incentives to preserve the status quo in real terms? Are there real incentives for all involved to address value for money issues and promote the delivery of better results? What level of detail does the ministry of finance use to scrutinise budget submissions and incentivise improved performance? Are there any short-term measures that can improve the budget preparation process without needing to introduce demanding and potentially inappropriate techniques such as performance-oriented budgeting?

Project Outputs and Timescale

5. The key output of this project will be a report of findings and recommendations arising from the analysis of budget negotiation in three sub-Saharan African countries – Lesotho, Tanzania and Nigeria (to be agreed finally following discussions with CABRI). CABRI networks should be used for dissemination.
6. The research should cover for each country investigated:
 - a. the role of the ministry of finance (and any ministry of economy and planning)
 - b. the reasonableness of the budget timetable
 - c. the availability and quality of cost estimation information provided
 - d. the timeliness and quality of centrally provided guidance and budget parameter information (eg pay, exchange rates and inflation data)
 - e. the degree of detail and abstraction demanded, and
 - f. the nature of the budget discussion/negotiation process (for example: the degree of inter-departmental dialogue; the contestation of figures and assumptions; the rigour of baseline calculations and trends; the relation between recurrent and capital costs; the identification of savings; new initiatives; the track record of achievement; initiatives and priorities; and the degree of budget realism).
7. As part of the project briefing and planning meeting that will take place for this project, detailed tasks and milestones will be agreed and incorporated into the master project plan.

Methodology

8. This is primarily a desk study using CIPFA and CABRI contact networks.
9. The work should include a brief literature review on budget preparation guidance, consultation with other expert organisations such as ODI and CABRI (the Collaborative African Budget Reform Initiative), who may be able to assist with suggestions of good and bad practice to review especially in countries where CIPFA is not already active (as well as provide further project support and guidance).
10. CABRI members (who are senior budget officials) should be consulted as to the most effective methods of data collection and how much of this can be achieved electronically.
11. Principles derived from more developed countries should be drawn upon to provide the methodological framework to draw lessons for developing African countries.
12. Team leader is Peter Boulding (with Policy and Technical Division support).

Customer Quality Expectations

13. This project is being commissioned by CIPFA, who is the primary client. However, given the nature of the relationship between CIPFA and DFID, it is essential that quality expectations be held in common by both CIPFA and DFID. Therefore, the joint quality expectation of the two parties is that:
 - a. the project is completed to CIPFA's quality standards, and
 - b. the project is completed on time and within budget.
14. The project acceptance criteria will be derived directly from these quality expectations, ie the outputs from the project will be accepted by both CIPFA and DFID to the extent that they meet these expectations.

Project Planning, Management and Reporting

15. The project will begin with detailed briefing and planning meetings, to agree the overall approach, to clarify intended outputs, and to agree a modus operandi and specific products that will constitute the deliverables from this project. The project overall is expected to be completed within the agreed timescale.
16. Reporting will be to CIPFA's International Director. Technical, financial management and other support will be available from CIPFA's assistant directors (International), and administrative and logistical support will be made available by the CIPFA International business support team.

Annex 2: Case Study

Additional Material – The Netherlands

Case Study - The Netherlands

Budget process

The national budget and the Budget Memorandum

Government tasks cost money. The House of Representatives and the Senate must each year adopt the government expenditure. The Constitution provides that each year on Budget Day the Minister of Finance submits the budget proposals to the House of Representatives on behalf of the government. These proposals constitute the national budget. The Budget Memorandum is presented at the same time.

The Budget Memorandum is a general explanation to the national budget and provides a summary of the most important plans from the ministerial budgets and their financial consequences. The Budget Memorandum also discusses the national and international economic situation and provides an explanation to the policy regarding the entire public sector (Central Government, Social Security and Care).

The national budget consists of sub-budgets of the separate ministries. Every budget is submitted to the House of Representatives and the Senate in the form of a bill. Once the House of Representatives and the Senate have discussed and adopted the bills (whether or not in an amended form), the ministers may implement the intended plans and spend the money from 1 January of the following year. Just like any other bill, the budget bill is composed of articles. Every article represents a policy objective which the government wishes to attain. It provides a coherent answer to the questions: 'What do we wish to achieve, how will we go about it and how much can we spend?' The articles are therefore also referred to as policy articles.

Starting points and budget rules

The starting point for the budget process is the general budget policy agreed at the start of each parliamentary term. Those agreements are included in the Government Agreement. Since 1994 the budget policy revolves around the expenditure framework for the entire public sector. This means that the maximum expenditure of both the Central Government, the funds for the Social Security and Care are fixed for the entire parliamentary term. The specific sub-budgets laying down the maximum share per ministry are derived from this.

The rules of the budget process are the so-called budget rules. They seek to maintain the expenditure frameworks.

Budget Rules (Rules on budget discipline):

To preclude any overrun of the agreed expenditure

One must seek to prevent setbacks in the expenditure by taking measures in a timely fashion.

To signal any overrun

Windfalls and setbacks must be reported to the Minister of Finance and the Council of Ministers in a timely fashion.

To compensate for any overrun

Each setback must in principle be compensated within the ministry or the sector where the setback occurs. This is referred to as 'specific compensation'. For example, where more students than expected in the education budget apply to universities, the Minister of Education may decide to reduce the student grants or to increase the college fees in order to absorb the setback in the expenditure;

In exceptional cases, the Council of Ministers may decide on a general compensation and this compensation will be extended to other ministries;

Windfalls in the expenditure may be used to compensate for setbacks, but may in principle not be used for new policy.

The preparation of the national budget and the Budget Memorandum

Almost a year before Budget Year the preparations for the next national budget and the Budget Memorandum commence at the Ministry of Finance. The Minister of Finance has a central role in the budget process.

The central role of the Minister of Finance

All ministers bear political responsibility for the preparation (and the implementation) of the budget of their ministry. For example, the Minister of Finance is responsible for the budget of the Ministry of Finance. As a specialist minister he is responsible for the expenditure of his ministry, including the expenditure of the Tax and Customs Administration and the interest expenses in connection with the National Debt.

In addition, under the Government Accounts Act, he also has a special position in the budget process as he is responsible for the general budget policy. The Minister of Finance thereby has powers with regard to the budgets of all other ministries. For example, all plans of ministers with financial consequences must be submitted to the Minister of Finance. He has a pivotal role in the budget process.

Budget notifications of the Minister of Finance

(October/November preceding the year of submitting the budget proposals)

The Minister of Finance sends a budget notification to the other ministers with technical and procedural directives which the specialist ministers must take into account in the preparation of their budget. It concerns inter alia procedural directives such as: when must the ministers submit the preliminary draft budgets to the Minister of Finance, but also the economic data affecting their expenditure. The intention of the budget notification is that all ministries base their budgets on the same premises.

Policy letters from the ministries

(February/March preceding the budget year)

The directives from the budget notification of the Minister of Finance are internally transmitted within the ministries. The various departments of the ministries prepare their budget proposals. During the preparation the emphasis shifts to the policy contents. And thereby to the questions: what do we wish to achieve, how will we go about it and how much can we spend? The results of the implementation of the budget of the current and previous year are thereby also taken into account.

The proposals are submitted to the central department Financial Economic Affairs of the individual ministries, which reviews them, comments on them and forwards them to the Minister and the State Secretary/Secretaries. The political heads decide which priorities must be given, on which issues more money must be spent, on which less and for which policy additional funds may be requested. This is laid down in a policy letter sent to the Minister of Finance.

Framework letter from the Minister of Finance

(March/April preceding the budget year)

The Ministry of Finance uses the information from the policy letters to prepare a summary of the windfalls and setbacks and of the claims for the desired new policy. On the basis of this summary and the recent economic insights (data from the Central Planning Office on the economic developments, the interest rate, the development of wages and prices and employment) affecting the expenditure framework the Minister of Finance provides insight in the framework letter into the opportunities and problems regarding the next budget. This budget letter reviews in general whether cutbacks are required in one or more of the three sectors (Central Government, Social Security and Care) or whether there is room for additional expenditure, for a relief of the tax and premium burden or for an improvement of the public finances (reducing the financing deficit, realizing a surplus, repaying the debt).

Budget letters and budget memorandums

Many documents are drawn up during the preparation of the budget and in the implementation phase. A distinction may be made between budget letters and budget memorandums:

Budget letters are internal documents from the Minister of Finance to his fellow ministers. They include proposals and data for the preparation and decision-making of draft budgets by the government (in the Council of Ministers). Such letters are not public.

Budget memorandums are external documents sent by the Minister of Finance on behalf of his colleagues to inform the House of Representatives and the Senate. The documents are public and provide information on the financial-economic policy of the government. The best-known memorandum is the Budget Memorandum presented on Budget Day.

Framework letter decision-making and totals letter

(April/May preceding the budget year)

In April the ministers discuss the framework letter in the Council of Ministers. This means that they jointly review the expenditure and receipts relating to the budget: where have additional claims been submitted, how are problems resolved and which opportunities for new policies are politically feasible? Usually, general decisions are rendered after a couple of meetings on the objectives, expenditure, and receipts for the following year. This decision-making in the spring is the principal moment of considering the budget. The framework letter decision-making also immediately provides a budget total per ministry. Early May the Minister of Finance sends these totals to the ministries in a letter, ie the Totals Letter. This letter includes a summary of the decision-making on the framework letter and – as may be clear from the name – adopts the total per budget for the following budget year. In other words: it includes the figures which the budgets of the ministries must comply with.

Submitting the preliminary draft budget

(Middle of June preceding the budget year)

In the middle of June the ministers submit their preliminary draft budget to the Ministry of Finance. As the Minister of Finance is responsible for the general budget policy all separate budgets are submitted to and reviewed at the Ministry of Finance. It is reviewed per ministry whether the preliminary draft budgets comply with the negotiated agreements (eg from the Government Agreement, the budget notifications and the Totals Letter). Attention is thereby also drawn to the explanatory notes regarding the policy articles, the so-called ‘explanatory memorandum’ included per bill. It is reviewed whether it is clearly stated which objectives the ministry concerned wishes to attain, which performances must therefore be rendered and how much money must be spent on each objective. In the months June and July intensive consultations are therefore held at senior officer level. Where points of conflicts remain, further consultations are held at an increasingly higher level up to the level of the ministers and state secretaries. The consultations may result in changes compared to the totals letter. The Minister of Finance submits such changes to the Council of Ministers.

From preliminary draft to draft budgets and the Budget Memorandum (summer months preceding the budget year)

During the summer months the ministers further work on their budgets. The Ministry of Finance also prepares the Budget Memorandum stating the main lines of the financial-economic policy and the national and international economic developments.

Final decisions on the budget in the Council of Ministers

(August preceding the budget year)

In August the decisions are rendered on the national budget. Up until the summer preliminary figures are used. In the decision-making round of August the up-to-date economic data from the Central Planning Office (the Macro Economic Exploration) are known. The draft budgets and the Budget Memorandum may now be completed. The Budget Memorandum and the separate budgets are subsequently discussed and adopted in the Council of Ministers.

The national budget and the Budget Memorandum are sent to the Council of State for advice (first week of September preceding the budget year).

The final budget proposals forming the national budget are submitted by the specialist ministers to the Minister of Finance. These proposals and the Budget Memorandum are sent to the Council of State for advice not later than 1 September. The Council of State must render its advice on legislation and administration to the government and to parliament. The Council of State renders its advice in the first week of September.

Ministers draw up further report

(First week of September preceding the budget year)

The ministers draw up a so-called ‘Further Report’ in reply to the Council of State’s advice. Meanwhile, the printers are in full swing in order to complete the entire national budget and the Budget Memorandum in time. Staff members of the Ministry of Finance and other ministries review the proofs and add the latest figures to the text and make amendments further to the Council of State’s advice.

The presentation on Budget Day

The presentation on Budget Day: the third Tuesday of September preceding the budget year.

On Budget Day the results of all the preliminary work are made public. First of all, the Queen reads the speech from the Throne in the Knights' Hall after which the Minister of Finance takes the well-known briefcase to the House of Representatives to officially present the national budget and the Budget Memorandum on behalf of the government. The documents are thereby made public. The presentation of the national budget and the Budget Memorandum on Budget Day completes the preparatory phase and signals the start of the discussion of the budget.

The discussion and adoption of the budget

Parliamentary political and financial debate on the speech from the Throne

(September/October preceding the budget year)

The day after Budget Day the parliamentary debate on the national budget and the Budget Memorandum commences. During the parliamentary political and financial debate on the speech from the Throne the main lines are discussed. During this debate the Minister-President is the spokesperson on behalf of the government. A more detailed debate on the financial-economic policy follows in October with the Minister of Finance during the Parliamentary financial debate on the speech from the Throne.

Discussion of the budget in the House of Representatives and the Senate

(November/December preceding the budget year)

The discussion of the separate budget bills of the ministries starts with a written preparation and is followed by a verbal discussion. The written preparation per ministry consists of written answers to a list with questions from members of parliament on a ministry's budget. Thereafter, during the verbal discussion in the House of Representatives, changes may be proposed to the budget bills. A member of parliament may submit an amendment or a motion to this end. An amendment is an immediate change to the bill which must be put to the vote. A motion concerns a request to the minister concerned to amend the budget or the policy.

Where an increase of the expenditure is proposed through an amendment, there is an unwritten rule that the House of Representatives also indicates where this money must come from. Voting on the budget bill and voting on any separate amendments complete the verbal discussion.

After approval the budget bill, whether or not amended, is sent to the Senate. The Senate may not make any amendments. It may only adopt or reject the budget bill. Once the House of Representatives and the Senate have approved the budget bills the government may spend money. The representatives therefore eventually decide whether and how the government funds are spent.

Source: Ministry of Finance website (http://english.minfin.nl/Subjects/Budget/Budget_process), December 2010.

Annex 3: Case Study

Additional Material – Denmark

Budget Process and Local Government Participation

Steps in the budgeting process

In some countries including in Denmark, the budget process is divided into a technical (administrative) part and a political part. Below is presented 4 steps in the budget estimation, where the technical part covers the estimation of the basic budget in step 1-3, while the fourth step covers the political part.

The 4 steps in the budget estimation process are:

1. Calculation of basic budget for expenditures
2. Forecasting of revenues
3. Estimation of balance (surplus/deficit)
4. Political decision making on adjustments

Step 1

For the expenditures, the starting point should be the expected budget execution for the actual year. The preparation of the budget should start in the second quarter of the year before the budget year, although data to support the preparation is produced continuously during the year, eg the consolidated budget execution for at least first quarter.

Step 2

For the revenues, the estimation is to some extent a technical exercise based on information in all available registers with tax-payers, payment of fees in the actual year and the development in the overall economy, which affects the tax income and the values of properties. Alternatively, if the tax registers are not complete, the estimation of revenues could follow same method as expenditure, ie the expected execution of the actual year.

Calculations of both revenues and expenditures should be disaggregated, so each type of expenditure and revenue is estimated at a functional level, eg per sector and per type of tax or fee. In this way information within sectors can be used eg to determine the expenditures' growth rates and to take into consideration the normal development of expenditures throughout the year, where spending in some months might be higher than in others (the seasonal development).

Step 3

After the basic budget for expenditures and revenues is estimated, the basic balance can be calculated to reveal, whether a surplus or deficit is expected. As can be seen these exercises are purely technical.

Step 4

Thereafter a political decision making process can take place on how the budget can be balanced by cutting down expenditures in certain areas, prioritising between different additional expenditures if possible and/or increases/decreases in tax rates and fees. This step is actually the most interesting step, because this is the point in the budget process, where the politicians' influence on the development takes place.

Budget Cooperation – municipalities – central government

As can be seen above central government can make a lot of information available to municipalities and regions to support and facilitate the budgeting, eg information on expected inflation rate, economic growth, new legislation, demographic development and transfers from the central government. In most countries this is done by regular budget information from the central ministries to regions and municipalities.

In Denmark a system of cooperation between the central government, regions and municipalities on budgeting has developed gradually since 1970 to institutionalise certain elements in the inter-budget process either in the legislation or through binding or "gentlemen's" agreements that facilitate the budgeting of the municipalities and regions.

This budget cooperation between the central and the local governments has as one result that an agreement is made annually between the municipalities and the central government on the overall budget of the municipalities.

For the central government, this makes it possible to coordinate local government a budget with the central government's to secure their compliance with macroeconomic policies. For the municipalities it provides a framework for the development of their budget and security for the funding they can expect in the budget year.

The system is run by annual negotiations between the central government and the local government organisations (LGDK, the National Association of Municipalities) and the Regions' Association resulting in two agreements concerning respectively the municipalities' and the regions' budgets for the following year. This means that LGDK negotiates on behalf of the 98 Danish municipalities and the regions association on behalf of the 5 Danish regions.

The agreement for the municipalities deals with expenditures and revenues for the municipal sector as a whole. Each expenditure/revenue in the statement of municipal expenditures and revenues is negotiated separately and the main topic for the negotiation is to agree on the total surplus/deficit and how this can be financed. The agreements are concluded in June in the year before the budget year.

The negotiation process is concentrated in the period from April to June. A substantial number of meetings between the Ministry of Finance, other line ministries and LGDK are held at the level of civil servants during this period before politicians take over by June to finalise an agreement and handle issue that are not agreed upon by civil servants.

The agreement is not legally binding for the individual municipality, and LGDK has the overall responsibility for its fulfilment. When the municipalities' budgets are ready in October, it can be analysed if the agreement has been fulfilled and normally this is the case, although a few municipalities sometimes have some difficulties. Both parties are aware of their obligations and the importance of a mutual fulfilment for the future cooperation and thrust.

Thereafter the agreement is also ratified by the government, so necessary finance and changes in legislation are approved by the Parliament.

Source: Local Government Denmark (2008) Memorandum for study tours to Denmark: EU Project *Management of sub-national public finance in the Russian Federation*. P. Bottern, LGDK, Copenhagen.



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