

PERFORMANCE BUDGETING FOR THE PHILIPPINE GOVERNMENT

By

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1. *Introduction*

The budget is probably the most vital single document issued by the Philippine Government annually. While the budget is accepted to be the financial plan of the government, some consider it merely a book of estimates or a book of expenditures. Today, as former budget director Harold Smith puts it, the budget is regarded as "a device for consolidating the various interests, objectives, desires and needs of our citizens into a program whereby they may jointly provide for their safety, convenience, and comfort." Hence, the budget has become a focal point of fiscal policy. In the budget document, fiscal policies are coordinated and only in this document is established the pattern of the performance of the administration in the budget year.

The program proposals outlined in the budget message affect not only the taxes we pay, but also our incomes and savings. Its more than one thousand entries, contain item after item of direct and personal interest to every individual in the Philippines.

Although our current budget procedure occupies a year round process, yet the end product, the national budget, is probably the least understandable and least workable document issued by the National Government.

Undoubtedly this is so because of the complexity and size of this document — a complexity that reflects voluminous peso signs and statistical data without revealing enough information as to their ends or goals.

During these postwar years tremendous changes and improvements have been made in the budget by leading congress-

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sional and parliamentary governments. Notable among these are those found in the federal budget and budgets of state and local governments of the United States.

The budget is now increasingly becoming a "tool for administrative management and an instrument of legislative control." This kind of budget is the "performance budget" which has been adopted by most of the States in the United States and partly by the Federal Government.

2. *What do we mean by Performance Budget?*

The Commission on Organization of the Executive Branch of the Government popularly known as the Hoover Commission in its report to the Congress on Budgeting and Accounting systems of the Federal Government in February, 1949 discovered in many respects grave deficiencies in the old budget process. It made a number of recommendations with a view to improve the process, the most significant and the first of which reads:

"We recommend that the whole budgetary concepts of the Federal Government should be refashioned by the adoption of a budget based upon functions, activities, and projects; this we designate as a performance budget."¹

The report continue: "Such an approach would focus attention upon the general character and relative importance of the work to be done, or upon the service to be rendered, rather than upon the things to be acquired such as personal services, supplies, equipment, and so on. These latter objects are, after all, only the means to an end. The all-important thing in budgeting is the work or service to be accomplished, and what that work or service will cost".

"Under performance budgeting, attention is centered on the function or activity — on the accomplishment of the purpose — instead of on lists of employees or authorizations of purchases. In reality, this method of budgeting concentrates congressional action and executive direction on the scope and magnitude of the different Federal

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activities. It places both accomplishment and cost in a clear light before the Congress and the public".

For this reason it is often referred to as a program budget. In this new approach the usual organization units and objects of expenditures are secondary considerations. Instead such data for each organizational unit are spelled out, under a work program broken down into work-loads, work units and unit costs.

3. *Brief History*

The idea of a performance budget is not new. Budgeting on program basis has been experimented on as early as 1912 when this type of budgeting, known at that time as a "cost budget"² was applied to the public works programs of Richmond Borough in New York City. Each mayor function was given a carefully worked-out program which was the basis of this budget. Some of such functions were street cleaning, care of sewers, and maintenance of streets which were supported by a system of cost accounts.

Partly because of inadequate cost records and, worst of all, because the city appropriations were not revised to fit the new type of budget, the "cost data budget" operated for only three years. The idea was later applied in modified form in other cities as in Richmond and in some States as in Maryland.

4. *What are the Advantages of Performance Budgeting?*

As cited by the Hoover Commission and as experienced by some States and local governments and the Federal Government in the last three years, performance budgeting have the following advantages:

(1) It gives more comprehensive and reliable information to the chief executive, the legislative body and the general public as to the policies of the Government;

(2) It helps individual legislators to understand what the government is doing and what the costs are;

(3) It improves legislative examination of budgetary requirements and enables the legislative financial committees to decide more easily the basic expenditure issues each year;

(4) It makes possible the submission and consideration of the budget for a shorter length of time;

(5) It enables administrators to place responsibility upon subordinate officials for the clear execution of the provisions made by the legislative body, and finally,

(6) It permits effective performance in reporting on budgeting and management.

The above advantages are also the requirements of a sound budget system and are in conformity with modern budget thinking.

5. *Is There a Need for Budgetary Reforms in the Philippines?*

The budget document of the Philippine Government is of the line-item type. Under this type, the budget has become more and more voluminous and inflexible every year. It has more than 1000 pages consisting largely of listings of positions, titles, salaries and detailed listing of sundry expenses. Each section starts with a terse explanation of changes in items, with little information as to purpose, use or program.

Our budget system has been following the same routine since 1916 in spite of the tremendous increase of our government activities. The same emphasis on line items, the same tabular matters appear and the same method of budget process is followed in the formulation, authorization, execution and auditing of the budget.

One defect of our line-item budget is the intermingling of subsidies and contributions, of capital outlays with current operating expenses, thus making it almost impossible to find the progress in completing a project or its ultimate cost, or its effectiveness in terms of past experience.

Another serious weakness of our current budget, besides the multitude of itemizations and particularizations is the existence of numerous limitations in the form of special and general provisions which should find their proper places in the Budget Act.

The various special funds and receipts automatically appropriated are scattered in the different areas of the budget.

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Because they are financed by special collections, their totals are offset by negative items and are not carried down to the grand total. Hence, the budget total cannot be used as a tool for economic analysis unless one knows how these funds are presented.

All these weaknesses and defects and several others add to the complexity and red tape in carrying on administrative processes besides making the budget, "an unintelligible maze of figures."

To substantiate my point, four years ago the Bell Mission³ in its report on the fiscal position of this country recommended the following:

"Appropriations, after the review of detailed justifications of the amounts requested, should be made on the basis of broad functions. The detailed listing of positions and itemization and other expenses classifications now contained in the Appropriation Act under each major function could be simplified or eliminated entirely. By appropriating for major functions and reviewing the performances of the administrative officials as reflected in accounting reports of expenditures, the Congress will contribute much to fostering economy in the administration."

In summing up, the two major defects of our line-item budget are: it hampers or limits administrative discretion and action and it focuses attention on positions and sundry expenses, rather than on programs and accomplishments which are the goals of a modern budget procedure.

6. *Form of the Budget*

Before we can adopt the performance budget, let us look into the form of the budget as provided by our law:

Section 19 of Article VI of the Constitution provides that the form of the budget and the information that it should contain shall be prescribed by law.

Commonwealth Act No. 246 or the Budget Act of 1937 provides that the various objects of expenditures like salaries and wages and sundry expenses be specified. Salaries and

wages for instance, are to be broken down further into positions, the number of each class, the respective designations, the salary rates and the items shall be grouped by bureaus and offices.

However, Sec. 4 of the same Act gives the President authority to change the form of the budget, when it provided that:

“The President is authorized to change, subject to the requirement of the Constitution, the form of the budget or any feature thereof, to suppress any existing feature and to add any new feature, data or information which, in his opinion, may help toward a clearer presentation of the needs of the Government and the condition of its finances: Provided, That such changes shall be valid and subsisting while the Assembly does not provide otherwise.”

This provision implies that this portion of the Budget Act be amended to suit the new budget idea.

7. Two Basic Questions to Consider

There is no doubt that program budgeting, besides correcting the weaknesses of the line-item budget will pave the way for the presentation of a responsible budget. Let us pause for a moment and center our attention around two basic questions:

First, will the Congress accept this new budget idea? And second, what are the conditions necessary to insure its effective operation?

It is claimed that under the program budget, a considerable degree of central control of budget execution will be maintained by the Budget Commission through its allotment power and spending agencies will inherit substantial flexibility, within the framework of congressional limitations and rules of the Budget Commission. If this is so, it is only because the responsibility of budget execution properly belongs to the Executive Branch of the Government.

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The performance budget would involve the surrender of some controls over details by Congress to the Executive. The same controls can be retained by Congress, however, through the appropriation language and through formal and informal communication.

In the main, this new approach does not shift or surrender legislative responsibility to the Executive because Congress maintains its constitutional power to control and limit expenditures through the authorization process.

The same effect would be obtained by the Congress through the submission of detailed program justifications, supporting schedules, and personnel plantillas by the spending agencies to the legislative financial committees.

Furthermore, the installation of a sound merit system and a dependable system of work measurement will eliminate the fears of legislators of administrative abuses, thereby attracting the Congress to depart from the current practices of line-item budgeting.

As to the second question, to my mind, five basic conditions are necessary to establish the groundwork for the attainment of effective performance budgeting in the Philippines. Other requirements would be easily taken care of as they come along and as we gain experience from past performance.

First, the Budget Act of 1937 should be in line with modern fiscal trends. It should incorporate some patched-up general and special provisions appearing in different places of the budget. Only those more or less permanent features of the current appropriation acts should be considered. This would mean reviewing and improving the budget process and its appropriation structure. It should also include a modernized accounting procedure. After all budgeting and accounting go hand in hand.

Second, the Budget Commission should be reorganized to cope with the needs of the new budget idea. As his staff agency, the President, through this office exercises his authority over the formulation and execution of expenditure programs. This Commission besides clearing fiscal and non-fiscal legisla-

tion and coordinating certain activities, statistics for one, should strengthen its unit charged with Organization and Method Work. An O & M office is now a *must* in governments. As a result, a budget office geared to modern needs enjoys the confidence of the legislative body.

Third, there should be a budget office created in each department.

Since programs and expenditure estimates are worked out first in the operating lines, each department should be provided with a budget office serving as a staff responsible to the department head. Its main job is to coordinate its tasks with the finance and administrative officers of the lower levels in their activities and to prepare programs and estimate costs; to develop and interpret a workable system of work and personnel measurement; and to introduce a system of recording and performance reporting.

To secure maximum efficiency and uniform thinking in performance budgeting and management improvement, the personnel of these budget offices should have training or should be trained in the field of public budgeting and public personnel.

Fourth, the existing methods of controls on public expenditures should be strengthened and new ways be devised.

As practised in the Federal and State levels, after the appropriation Act has been authorized by the legislative bodies, control of programs and projects becomes a major administrative task. Their systems of apportionment and allotment of funds have gained the confidence of the legislature.

Pre-auditing is exercised largely in the operating lines and post-auditing is a *must* to the auditing office. By avoiding executive pressures, the Auditing Office becomes an independent auditing and investigating establishment of the legislature.

Besides allowing a check of administrative competence and fidelity, an improved system of controlling public funds will provide for the fixing of responsibility in the handling and use of said funds.

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Fifth, and lastly, Congress should enact a law providing for a systematic position-classification and salary plan.

This scheme is a pre-requisite in the States of the United States which have adopted program budgeting. Its various provisions should fit the needs of public personnel. It should provide for an efficiency awards system in each agency. A well-defined position classification and compensation plan can serve as a means to maintain congressional belief on the merits of itemized positions and salary rates.

By and large, the installation of these basic conditions and the revision of existing practices should be made along the general lines and in accordance with the underlying objectives of the performance budget.

8. *How should the spending agencies proceed from this point in the realization of program budgeting?*

Briefly the important matters to be considered would involve the following:

(a) Each spending agency should determine its major functions. As much as possible each major function should be divided into current operating costs and capital outlays, if any. Those financed by special funds and contributions should be segregated.

(b) The current operating costs should be divided into operating functions or programs, many of these may be subdivided further for purposes of showing important sub-programs, activities or projects. The same treatment could be given to those functions classified under capital outlays and those financed by special funds and contributions.

(c) Once each requirement has been translated in terms of programs or projects, it should be supported by appropriate cost and other data and explained by adequate textual matter. It should reveal the workload, total costs and unit costs. Written justifications and break-downs of lump sums should be furnished to the Budget Office and the Appropriations Committees of Congress.

(d) In each case, the nature of the work should be explained briefly and clearly, the elements involved in carrying it out, an appraisal of results and the scope or trend of future work should be prescribed in the form of narrative statements.

(e) The first draft of writing the appropriation text is the concern of the operating levels; revision and re-writing is a job for the Budget Office; and the final touches properly belong to the financial committees of the Congress.

9. *Conclusion*

In the Philippines today sharp projections are being made to reshape and improve the internal operation of our public administration. In the fiscal field, the budget is the target. The clamor of the Congress, the press and the people is that we should have a more meaningful and responsible budget which will eliminate waste and duplication. The performance or program budget is the answer. This time we can have a budget which can answer the question: "What performance can I as a citizen expect from a particular work program if I put up the pesos requested?"

Until we have met the requirements and have prepared the groundwork necessary, the performance budget should be adopted gradually. We could convert the budget of a department, for example that of the Department of Agriculture to one of a strictly program basis. When we get the feel of it, application on other departments will be much easier with difficulties encountered in past experiences ironed out and solved.

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REFERENCES

¹ Commission on Organization of the Executive Branch of the Government, Budgeting and Accounting, February 1949, pp. 8-9.

² A. E. Buck: A Paper prepared for the Annual Forum of the Washington Chapter, Society for Advancement of Management, June 3, 1949.

³ Technical Memoranda or Report to the President of the United States by the Economic Survey Mission to the Philippines, Washington, D.C. 1950, p. 61.