**PUBLIC SECTOR BUDGETING**

Session 1: Meaning and objectives of budgeting in the Public Sector (PS)  
Session 2: Budget cycle and approaches to budgeting in the public sector  
Session 3: Regulatory framework of Budgeting in Ghana. For instance, IPSASs 24.  
Session 4: The Content of a National budget.  
Session 5: Budgeting in the Central Government.  
Session 6: Budgeting in the Local Government.

Dear Learner, you are welcome to Unit 2. In this unit, we share be  
looking at public sector budgeting. One of the tools for control in  
any organisation is budgeting which is a financial projection of the organisation’s future  
activities. The public sector also uses budget for financial control and their budgeting  
process is similar in many respects to that of the private sector. So in this unit, we shall  
be concentrating of the budgeting process of the public sector. You may now read on…

**Unit Objectives**

At the end of this unit, you should be able to:  
1. Explain public sector budgeting and its importance.  
2. Identify and explain the various approaches to public sector budgeting.  
3. Identify and explain the relevant regulations that govern public sector budgeting  
4. Discuss the public sector budgeting process for local and central governments in  
Ghana

**PUBLIC SECTOR BUDGETING**

This is blank sheet for your short note on:  
• Issues that are not clear: and  
• Difficult topics if any

**PUBLIC SECTOR BUDGETING**

**SESSION 1: MEANING AND IMPORTANCE OF BUDGETING  
IN THE PUBLIC SECTOR (PS)**

In this session, we begin our discussion on public sector budgeting with a  
look at the meaning and objectives for the preparation of such budgets. As  
indicated earlier, budgeting is the same irrespective of the sector of the economy  
engaged in it. So your knowledge in budgeting principles for the private sector would  
be very much needed. You may have to revise them if you have forgotten them. Now,  
you can read on….

**Objectives**

At the end of this session, you should be able to:  
a) Define and explain public sector budgeting  
b) Identify and discuss the importance of preparing public sector budgets.  
Now, you can read on…

**Definition and Meaning of Public Sector Budgeting**

Public sectors have missions which define the reason for their existence. Based on these  
missions, the public sectors develop goals and specific objectives, which when achieved  
would lead to the achievement of the mission of the sector. Achievement of the  
objectives for any period requires the commitment of resources that are properly  
managed. Meanwhile, resources are not in abundant supply. A budget is a control tool  
that can enable managers of organisations to allocate scarce resources and ensure its  
judicious application. While a budget is the outcome of the budgetary process,  
budgeting generally is a translation of the plans of an organization into financial  
projections that facilitate planning, resource allocation, and controlling of activities. In  
order to secure the desirable outcome from budgets, they should have the qualities being  
specific, measurable, motivating, and support of all members that would be involved in  
their development, implementation and evaluation.  
Budgeting is difficult in the public sector because of the difficulty in defining  
quantifiable budget objectives and outputs. Public sector budgeting is the process by  
which the public sector goes through in the preparation of financial plans that facilitate  
the implementation of strategies for achieving the objectives of an entity in a specified  
period. Public sector budgeting could therefore be taken as the process of developing  
financial plans for central government, MDAs and MMDAs. The budget generally  
would cover the various sources and application of state funds. It would include all the  
taxes that the state plans to collect, total amount of grants envisaged to be received,  
loans that would be contracted for a period, compensation for all public sector workers,  
goods and services to be acquired, assets to be bought, etc. So even though budgeting in  
  
**MEANING AND IMPORTANCE OF BUDGETING  
IN THE PUBLIC SECTOR (PS)  
UNIT 2  
SESSION 1**the public sector is similar to that of the private sector, it is a complex activity for the  
public sector given its size relative to the private sector.  
The preparation of the public sector budget is the responsibility of the Minister of  
Finance. The Minister is assisted by the Director of Budget who is responsible for the  
central budget agency (CBA) of the Ministry. The responsibility of these state officers  
and agency with respect to the preparation of budgets for the state would be discussed  
in the subsequent sessions.  
Now, we want to turn our attention to the features of public sector budgets  
**Features of Public Sector Budgets**The following are the disguising characteristics of public sector budgets  
*Budget Objective:* the purpose for which the budget is being prepared must be clearly  
identified and should inform the preparation of the budget. Public sector budget  
objectives are driven by national interest rather than profit motive. The general  
objective should be to ensure socio-economic development of the state. It should reflect  
the medium-term (3 to 5 years) developmental agenda of the state.  
*Budget Period:* Budgets can be prepared for any period (days, weeks, months, a year).  
Generally, public sector budgets are read for one fiscal year. The introduction of the  
medium term expenditure framework (MTEF) means that each year’s budget must be  
supported with three-year rolling plan outlining the general expenditure framework for  
the ministry, department or agency of the government.  
*Budget Presentation:* Public sector budgets may be prepared based on sectors within the  
public sectors which are then consolidated into the main budget. Sometimes, each sector  
is supposed to organize the budgets according to the programmes that the sector plans to  
undertake for the ensuing period. For instance in Ghana, the budgets may be oraganised  
according to the MDAs or MMDAs that the budget relates and at the same time each  
MDA or MMDA is required to organize its budget according to the programmes that  
would lead to the budget. The commission on human rights and administrative justice  
(CHRAJ) has management and administration, promote and protect fundamental human  
rights, administrative justice and anti-corruption as their key programmes for the 2018  
fiscal year.  
*Supplementary/review budgets:* Public sector budgets are subjected to a review in the  
course of the year. Where necessary a supplementary budget may be presented to revise  
the initial budget to factor in adjustments in revenue targets, revision in macroeconomic  
assumptions and adjustments to expenditure budgets.

**PUBLIC SECTOR BUDGETING**

*Public Involvement:* Public sector budgets involve the views of the public in its  
preparation through the use of a bottom-up approach, the administration of public  
expenditure survey and budget hearing (A meeting often open to the public, where  
individuals can comment or ask questions about a proposed budget).

*Budget regulations:* Budgeting in the public sector is highly regulated. In Ghana, the  
constitution, public financial management Act and IPSAS 24 regulates the preparation  
of public sector budgets. These laws cover all public sector institutions in Ghana.  
Private sector budgets are firm specific. Also, as at 2018, there is no existing  
international standard that regulate private sector budgeting.

**Benefits of Public Sector Budgeting**

Communication of government policies and programmes: the managers of the state  
inform the public and all stakeholders through the budget prepared. For instance the  
2017 budget of Ghana made it clear that the state was going to roll out the free Senior  
High School Policy of government as well as other programmes.

*Planning for government policies and programmes:* Public sector budget instills the  
culture of medium-term planning in the public sector through the medium-term  
expenditure framework. All annual budgets must be accompanied by at least a threeyear broad expenditure framework.  
*Allocation of scarce resource:* the nation’s scarce resources will be properly allocated  
through a public sector budget. Given the size of the public sector, budgeting  
contributes greatly to making sure that resources are fairly and equitably distributed to  
the various MDAs and MMDAs.

*Accountability and Transparency:* Ensuring accountability and transparency in the  
appropriation of government funds is achieved through budgeting for the public sector.  
The public sector budgets are widely distributed and discussed. Several versions of it  
including the citizen’s budgets in some major local dialects open up the public financial  
system for public scrutiny. Based on the budget, the public is able to assess whether  
manages of state funds plan to use state resources judiciously and assess at the end of  
the period whether the funds were actually used for its purpose.  
*Controlling cost:* Public sector budgets are used as basis for controlling expenditures  
within budgets. The various levels of authorization for public budgets and public  
spending as well as the establishment of cost constraints facilitate public sector cost  
control.  
  
**MEANING AND IMPORTANCE OF PUBLIC SECTOR BUDGETING  
IN THE PUBLIC SECTOR (PS)  
UNIT 2  
SESSION 1***Basis for performance measurement:* Budgets are bases for assessing how well  
managers of state resources have been able to operate within the confines of plans or  
how they have achieved state objectives with the allocated resources.  
*Motivation:* Budgets motivate public sector workers and the private sector to contribute  
their best towards the achievement of state objectives. Well communicated state  
objectives should energise the populace to contribute their best towards the  
development of the nation.  
*Fulfilling relevant regulations:* Public sector budgeting enables the managers of the  
state to fulfill their regulatory requirements. It shows proof that the required laws on  
budgeting have been followed by the managers of state resources.  
**Self-Assessment Questions  
Exercise 2.1**

**PUBLIC SECTOR BUDGETING**

**SESSION 2: APPROACHES TO BUDGETING IN THE  
PUBLIC SECTOR**

Welcome Dear Learner. We believe you have refreshed your minds on  
the basics of budgeting as well as the importance of budgeting with  
particular reference to the public sector. Remember that there are several ways of  
preparing a budget. Some budgets are prepared from the scratch while others are built  
on previous budgets. Furthermore, there are others that are organised according to  
activities and programmes. These will be our concentration in this session.  
**Objectives**By the end of this session, you should be able to:  
a) Explain the various stages of budgeting cycle for the public sector.  
b) Discuss the various approaches to preparing public sector budgets.

|  |
| --- |
| Now, you can read on… **Budget format and Budget Approaches** |
|  |

Budget formats may be line item budgeting or programme based budgeting while  
budget approaches may be incremental, zero based , performance based and activity  
based.

Line item Budgets

A budget prepared by grouping individual financial statement items by cost centres or  
departments. In the process of its preparation, the organization identifies the various  
sources of revenue to fund the various expenditure sources for the organization without  
clustering these revenue sources and expenditures according to activities or  
programmes. Once these revenue and expenditure sources are identified, they used  
consistently. So line item budgets are mostly prepared on incremental bases, i.e. by  
adjusting existing line expenditures by the expected increases in the budget period.  
Needless to say, the first line budget for an organisation would be prepared using zero  
based budgeting approach.

Let us consider an example of a line item budget  
In the budget the government agency considers its expenditure lines to include  
compensation for employees, goods and services and assets. The budgets are prepared  
based on these expenditure lines. Table 2.1 presents an example of a line item budget.

**APPROACHES TO BUDGETING IN THE  
UNIT 2 PUBLIC SECTOR  
SESSION 2  
Table 2.1: Hypothetical Example of Line Item Budget for KKBA District**

|  |
| --- |
| **Assembly** |

|  |
| --- |
| **GHS** |
| **Compensation** | 50,000 |
| **Goods and Services** |  |
| Travelling and Transport | 10,000 |
| Utility Services | 5,000 |
| Telephone Services | 2,500 |
| Stationery | 580 |
| Maintenance of Vehicles | 1,200 |
| Maintenance of Capital Assets | 760 |
| Staff Training and Development | 1,050 | 21,090 |
| **Assets** |  |  |
| Land and Building | 34,500 |  |
| **105,590** |  |  |

**Advantages of Line Budgets**

1. Relatively easy to prepare. Since the process involves consolidating the itemized  
revenue and expenditure sources of each unit within and organization,  
preparation of line item budget is relatively easy for units as well as the entire  
organization  
2. Easy to justify budgets. Because it is mostly based on previous years  
transactions  
3. Identification of revenue and expenditure sources: Line item budgets identify the  
various sources of revenue and expenditure that an organization earns or incurs  
without linking them to any projects or programmes. This enables the  
organization to identify their key funding and expenditure sources, the amounts  
involved in them and how to manage these sources  
4. Control over income and expenditure: since revenue and expenditure sources  
and amounts can be easily identified, assessment of the sufficiency of revenue  
for expenditure can be done relatively easily for control purposes.

**Disadvantages**

1. it is difficult to assess budget performance: Line item budgets matches revenue  
with expenditure without classifying the expenditures and revenues according to  
programmes/projects to assess the performance of the budget in achieving the  
outputs of those programmes/ projects. For instance, an increase in expenditure  
may be justified because of a compensating increase in revenue or improvement  
in other performance indicators. Performance-based and zero-based budgeting  
could be useful in addressing these defects in line budgets

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| **PUBLIC SECTOR BUDGETING** | **UNIT 2 SESSION 2** |

2. Possible inefficiencies when prepared on incremental basis. Because  
incremental budgets adjust previous year’s budget, when line item budgets are  
incremental in nature they allow inefficiencies in previous years to be rolled  
over to subsequent periods. Zero based budgeting could help the organization to  
overcome this defect.  
3. Sub-optimal spending. Managers may spend amounts in budgets when they  
could have been saved for fear of having their budgets reduced for subsequent  
years if current approved budgets levels are not spent. This normally happens  
getting to the end of the fiscal year.

**Activity Based Budgeting (ABB)**

CIMA (2003) official terminology describes activity-based budgeting as a method of  
budgeting based on activity framework, using cost driver data in the budget setting and  
variance feedback processes. It is a Budgeting technique where individual activities  
within the organisation are assessed in terms of their contribution to the achievement of  
the organisation’s objectives.  
In this form of budgeting, the revenues generated by an activity undertaken by a unit in  
an organization are assigned directly to that unit while expenditures incurred are  
analyzed to identify the activities that lead to that cost so that the assignment of costs  
would be based on those cost drivers. An organization that uses an ABB needs to:  
identify the various activities that lead to cost; accumulate costs into cost pools (put  
together similar cost); find out the events that lead cost to either increase or decrease  
(cost driver) and assign cost on the; calculate the cost per cost driver and assign cost on  
the basis of the cost drivers.

**Advantages**

1. It enables control to be exercised at the exact unit that actually incurred the cost.  
Activities and their associated are placed directly under the responsibility of the  
unit that incurred it so control can be easily and effectively administered to  
achieve the budget goals.  
2. ABB ensures efficiency because justification should be offered for incurring  
certain activities and in certain magnitudes and not on previous levels of certain  
functions.  
3. It is useful to organisations that want to use low cost leadership strategy to  
achieve competitive advantage. Since costs are anaylised into activities, it is  
easier to eliminate non-value adding activities and bottlenecks which then help  
the organization to perform better than others, in terms of low cost.

**Disadvantages**

1. It is expensive to prepare activity based budgets because it consumes a lot of  
time and requires resources to analyse costs into activities.

**APPROACHES TO BUDGETING IN THE  
UNIT 2 PUBLIC SECTOR  
SESSION 2**2. It is a complex budget which makes preparation and administration  
cumbersome.

**Programme based budgeting (PBB)**

The budgets are prepared from the point of view of specific programmes that the  
organization or its units plans to undertake in a specific period and not on the various

expenditure lines (not grouped into programmes). Each programme would contain  
specific line items that it purports to generate revenue from and/or spend on.

When the budgets are eventually approved, appropriation is made to specific line-items in the programmes.

In Ghana, the programme based budgeting (PBB) was introduced in 2014 after it was successfully piloted the previous year. The PBB replaced the activity based budgeting approach which had been in force since 1998.

A well-functioning MTEF was thought to be better associated with a performance based budgeting approach such as PBB even though MTEF could work with any budgeting approach such as activity based or programme based.

PBB identifies a series of programmes and the associated activities within the organisation and formulate the budget in terms of the programmes  
and then links the budget expenditure to clearly defined programme results. An example would be where the Ministry of Health (MOH) may have preventive health programme which is broken down into malaria control/ prevention, cancer prevention, etc

Programme based budget is a form of performance-based budgets.  
Performance based budgeting is the practice of developing budgets based on the  
relationship between programme funding levels and expected results from that  
programme. Funds are allocated based on results from programmes that contributed to the achievement of the overall objectives of the organization. Thus, evidence and data are used as bases for allocation of scarce resources to achieve goals of the broader society It emphasizes on progress towards measurable goals as basis for allocating funds and this should not be misconstrued as a reward or punishment bases.

It is also referred to as outcome-based, results based or priority based budgeting  
*Example of a Programme Based Budget*Shown below is the 2018 programme based estimates for the Commission on Human Rights and Administrative Justice’ programme based estimates for the year 2018.

Thedocument first identifies the policy objectives, mission, core functions, policy outcome indicators and targets, expenditure trends for the medium-term and summary of key achievements in 2017. The programmes of CHRAJ for 2018 were identified as management and administration, human rights, administrative Justus and anticorruption. These formed the bases for the programme budgets presented below.

Refer  
to Table 2.2 for an example of a programme based budget.

|  |  |
| --- | --- |
| **PUBLIC SECTOR BUDGETING** | **UNIT 2 SESSION 2** |

**Table 2.2: 2018 Programme Based Budget for CHRAJ  
2.6.1 Budget by Chart of Accounts  
6.1 – Programme, Sub-Programme and Natural Account Summary  
Entity: 035 – Commission on Human Rights and Administrative Justice (CHRAJ)  
Funding: All Source of Funding  
Year: 2018/ Currency: GH Cedi**

**Version 1**

|  |
| --- |
| **Budget** |
| Programmes - Commission on Human Rights and Administrative Justice | 32,565,421 |
| **03501 - Management and Administration** | **30,609,580** |
| 03501001 - General Administration | 30,609,580 |
| 21 - Compensation of employees | 17,618,470 |
| 22 - Use of goods and services | 2,433,549 |
| 31 - Non financial assets | 10,557,561 |
| **03502 - Promote and Protect Fundamental Human Rights** | **630,000** |
| 03502000 - Promote and Protect Fundamental Human Rights | 630,000 |
| 22 - Use of goods and services | 630,000 |
| **03503 - Administrative Justice** | **170,000** |
| 03503000 - Administrative Justice | 170,000 |
| 22 - Use of goods and services | 170,000 |
| **03504 - Anti-Corruption** | **1,155,841** |
| 03504000 - Anti-Corruption | 1,155,841 |
| 22 - Use of goods and services | 1,155,841 |

|  |
| --- |
| Source: Ministry of Finance and Economic Planning (2018) |

**Advantages**

1. Since the budgets are presented based on programmes, it is easy to prioritise  
programmes and concentrate on the programmes that are found to be viable or  
helps the organisation to achieve its objectives.

2. It enables the organisation to link budget inputs with outputs. In other words the  
MDA that prepared the budget can assess whether the achievements (proposed  
or actual) from the budgets are worth the cost associated with them.

3. Easy identification of budget cost control targets. Since the budgets are grouped  
into programmes, it is relatively easy to identify each programmes contribution  
to the entire organisation’s cost build up. Subsequently, appropriate cost control  
measures could be developed for the targeted programme or programme cost.

4. PBB facilitates the management of future service delivery. When an  
organisation prepares a budget based on programmes, it facilitates the planning  
for each programme, proper allocation of resources and enhances the benefit of  
division of labour and accountability.

**APPROACHES TO BUDGETING IN THE  
UNIT 2 PUBLIC SECTOR  
SESSION 2  
Disadvantages of PBB**

1. It takes time and effort to develop and administer a programme based budget.  
Each programme budget virtually goes through a complete budget cycle. There  
is also difficulty in fixing budget outcomes for the public sector which deals  
predominantly in qualitative budget outcomes.

2. Incorrect programme based budgets lead to appropriate budget decisions such as  
wrongful allocation of scarce resources.

**Zero-Based Budgeting (ZBB)**Traditional form of budget is prepared on incremental basis but zero based budgeting is  
budgeting from the scratch without reference to previous budgets. This means that all  
activities are assessed to offer a justification for their inclusion before they are included in the current year’s budget. As the name implies the base for preparing the budget is zero so any unit or function would have to analyze its needs and costs so that the budget is prepared on that bases. Thus the budget does not build on any base-year budget as it’s done in the case of incremental budgeting. On this basis, every line item finds its way into the budget because it would be earned as revenue or incurred as expenditure in the current budget period.

**Advantages of ZBB**

1. It leads to budget accuracy and efficiency since it eliminates redundant activities  
of previous years as well as deals with previous budgets inefficiency. Also,  
budgets are likely to be achieved since it is based on current activities that the  
organization plans to undertake.

2. It facilitates goal congruence through coordination and communication among  
various units of the organization.

3. Variances are likely not to be too wide since current year’s budget does not have  
previous year’s inefficiencies and are based on expectations for the current  
years.

4. Budget preparers and implementers are better motivated because their decisions  
create the budget.

5. ZBB enables organisations to constantly assess how well their budgets support  
the achievement of their objectives and mission  
Disadvantages of ZBB

1. ZBB is expensive in terms of time, effort and cost that must go into its  
preparation and execution.  
2. It requires adequate manpower with the required skill and ability to anlayse  
activities in detail as well as assess the cost implications of these activities.

**PUBLIC SECTOR BUDGETING**

**Incremental budgeting**In incremental budgeting**,** previous period’s (base year’s) budget informs the  
preparation of current year’s budget by adjusting the base year by an expected variable in the current year. The preparation of the budget is based on the premise that previous year’s activities would repeat in the current year and the magnitude of the increase is based on the size of the previous year’s. The size of the current year’s increase is influenced largely by inflation and changes in activity levels.

So, specific income and expenditure lines are adjusted by the change magnitude.  
For instance, if we assume that the information in the line item budget (Table 2.1)

Above would increase by 5%, for simplicity, the current year’s budget would look as follows:

**Table 2.3: Hypothetical Example of an Incremental Budget**

|  |  |
| --- | --- |
| **Last Year** | **Budget for This Year** |
| **GHC** | **GHC** |
| **Compensation** | 50,000 | 52500 |
| **Goods and Services** |  |  |
| Travelling and Transport | 10,00 0 | 10500 |
| Utility Services | 5,000 | 5250 |
| Telephone Services | 2,500 | 2,625 |
| Stationery | 580 | 609 |
| Maintenance of Vehicles | 1,200 | 1,260 |
| Maintenance of Capital Assets | 760 | 798 |
| Staff Training and Development | 1,050 | 21,090 | 1,102. 5 | 22,144.5 |
| **Assets** |  |  |  |  |
| Land and Building | 34,500 | 36,225 |  |  |
| **105,590** | **110,869.5** |  |  |  |

**Advantages of Incremental Budgeting**

1. It is simple and less expensive to prepare because it is based on current actuals  
or recent budget.  
2. It improves on the transparency of the since budget figures can easily be verified  
by applying the expected change on the base.  
3. It ensures consistency in operating activity which facilities comparability.  
4. Funding for medium-term and long-term programmes could be secured and  
easily monitored.  
  
**APPROACHES TO BUDGETING IN THE  
UNIT 2 PUBLIC SECTOR  
SESSION 2**Disadvantages of Incremental Budgeting  
1. Previous year’s inefficiencies are automatically carried to subsequent years.

2. It is less motivating since there are minimal inputs from budget preparers and  
implementers.

3. It is easy to build budgetary slack into the budgets. Managers are likely to  
underestimate revenue and overestimate expenses by assuming a small  
percentage increase in revenue and a bigger increase in expenditure for the  
budgets to be easily achieved.

4. It can encourage overspending since previous year’s activities that may not be  
needed in the current year are automatically rolled into the current year.

5. Incremental budgeting approach may discourage innovation and risk taking  
since it encourages adjusting previous levels which indirectly leads to  
maintaining the status quo.  
**Self-Assessment Questions  
Exercise 2.2**