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PUBLIC BUDGETING FROM A MANAGERIAL PERSPECTIVE

Riccardo Mussari

Introduction

Nowadays, there is a recognized right to have a budget in all democracies. Citizens have the right to know in advance the amount of taxes they will be required to pay, and for what purposes and objectives that money will be spent. The literature on budgeting is immense even though, while several European countries have a long public accounting and budgeting tradition (Mussari, Ruggiero, and Monfardini 2010), in the US, “budgeting as we know it is a twentieth-century phenomenon. Indeed, until about 1910, the president, governors and mayors did not prepare formal budget documents” (Downs and Larkey 1986: 146).

Several disciplines study budgets and the budgeting process using diverse but complementary research methods and approaches: public policy, political science, economics, public management, public accounting and public finance (Caiden 1978). Such a complex and much-debated issue cannot be confined to a single chapter. Thus, we have limited our analysis to a few topics: the budget as a political and managerial document; approaches used to explain and justify budget formulation, including classical rationality, with its variant bounded rationality, and disjointed incrementalism; the functions and principles of budgeting; and budget formats. The perspective used in the presentation and discussion of these topics is consistent with public financial management theories and practices, though reference will also be made to public policy literature. While we will focus mainly on the political and managerial perspectives of budgeting, it is worth mentioning that the public budget also has a macro-economic dimension, constituting a tool for the redistribution of income and the stimulation of growth and development through the promotion of economic stability and equity.

The budget as a managerial and political document

The budget is a two-faceted financial plan composed of the sources of funds and their uses. The financial resources to be used in a future period in order to implement a specific plan of action are quantified on one side while the other side identifies the sources from which the resources will have to be drawn. The period covered by the financial forecast may be short (one year), medium (up to three years) or long (over three years). The word budget traditionally refers to
Public budgeting from a managerial perspective

a short-term forecast or annual budget. When the time horizon of the budget is longer, we have a medium-term or long-term budget. The budget is always related to the future; hence it is a planning tool. Its contents, regardless of any choices made concerning its organization and presentation, refer to events that have not yet occurred or, at least, whose financial effects are not yet fully manifested, even when they are dependent on decisions made in the past. For example, consider the case of predicting the future payment of a loan instalment. The loan agreement was signed in the past, but that decision determines a future payment that must be forecast and covered in the budget.

Yet the budget is also a control tool. Its financial data will be used in order to achieve future targets. Consequently, the budget can also be interpreted as the basic information necessary to check whether, and to what extent, what was intended is effectively achieved. It is a yardstick against which to measure actual performance. The type of control that the budget makes possible to exercise depends on the approaches, methods and techniques followed when defining its content and format. Control of the budget could essentially cover only the resources spent (control of input) and/or performance (volumes, efficiency, effectiveness, outcomes) achieved following the use of the forecast resources. At the very least, the budget is indispensable in exercising control over government finances, in order to ensure that public money has been spent according to the will of the legislature (micro-control), and over fiscal risk (Petrie 2013), which is “the possibility of short-to medium-term deviations in fiscal variables compared with what is anticipated in the government budget” (Budina and Murray 2013: 176).

The budget is not simply a financial forecast but a document that, starting from a strategy defined upstream, guides the actions of those called upon to use financial and non-financial (human, material, immaterial) resources to achieve expected results. From this perspective, the budget is a managerial tool and budgeting is mainly approached as a technical problem.

In this chapter we will only refer to the public budget, prepared by any level of government: federal/central, state/regional and local. Deciding how much public money to spend and on what, where to draw it from and in what proportion are tasks that belong exclusively to elected representatives. A public budget is the output of political decisions taken within the context of a system of rules that govern the budgeting process at different levels of government (Lienert 2013a, 2013b). In countries with parliamentary systems, the budget is proposed by the executive and approved by the parliament. The budget is therefore a political document, in the sense that political bodies are responsible for the distribution of funds between competing and legitimate interests. Indeed, there is always a political side to the budget, since one “cannot take politics out of budgeting” (Donohue 1982: 62). Furthermore, the majority of financial resources quantified in the budget directly or indirectly derive from taxes levied as well as from fees and charges. Money drawn directly from the tax levy is used to fund the implementation of programmes and the provision/distribution of public services. Resources are used indirectly to repay the debts incurred to cover deficits momentarily generated by differences between income and expenditure.

Budget and decision-making theories

Dealing with budgets inevitably entails addressing how decisions are taken, as the budget is the output, or the last stage, of a decision-making process, and every decision is an act of choice (Simon 1965). To try to explain how budget decisions are made we could use normative models or descriptive models. If we use the first, we intend to explain how we can reach a decision using systems of formal rules (logical and mathematical models) that, in theory, should lead to optimal and rational choices. On the contrary, if we prefer to explain how individuals
and groups make their decisions in practice, we use descriptive models. For the purposes of this chapter, we shall briefly recall the classical rational model, with its variant of bounded rationality, and disjointed incrementalism.

The rational model is a prescriptive one. It draws its support from economics, management and statistics. The rational decision maker (*homo economicus*):

- is consciously rational, and her or his behavior is rationally oriented to the achievement of goals chosen consciously;
- is always able to identify all possible alternatives;
- knows all the likely consequences of each possible alternative;
- evaluates all the alternatives and their consequences, even in the medium and long-term, and ranks them according to the result of the relationship between the costs and benefits of each alternative;
- chooses the best alternative (optimizing calculation) that shows the best ratio between benefits and costs;
- always chooses the same option, under equal conditions;
- is able to run through the behavior that led to her or his decision again, to explain and justify the decision taken.

The key element of the rational model is that the analysis must be both systematic and comprehensive, i.e. it must consider all the alternatives and factors relevant to the decision. This model is known as rational because the process by which the decision is arrived at is rational; not because its objectives are rational. In the rational perspective, the means are evaluated and chosen according to the ends, which are selected prior to and independently of the means. This implies not only that there is certainty about the values to which the ends are always related, but also that these values are sufficiently stable over time. The most significant attempt to introduce rational decision making into the budgeting process was the Planning–Programming–Budgeting System (PPBS). Created by analysts at the RAND Corporation in the 1950s, PPBS was first applied experimentally by Robert S. McNamara, Secretary of Defense, in the US Department of Defense. The basic ideas behind the experiment were, on the one hand, the need for explicit criteria to assess national defence needs in a long-term, five-year perspective and, on the other hand, the need to evaluate the costs and benefits of each alternative in order to justify and support budget decisions (Downs and Larkey 1986: 153–154). The key role of analysts in budgetary decisions was one of the main features of PPBS. In 1965, President Johnson ordered all federal agencies to introduce PPBS, only to revoke the order three years later. The following quotation explains why the introduction of rationality into public budget processes was a huge failure:

No one knows how to do program budgeting … many know what program budgeting should be like in general, but no one knows what it should be in any particular case.  
(*Wildavsky 1969: 193*).

Other important attempts to introduce rational budgeting processes in the US were Management by Objectives, introduced in many federal agencies during the Nixon administration in 1973 and withdrawn in 1975, and zero-based budgeting (ZBB). ZBB was developed by Peter Pyhrr for Texas Instruments (USA) in 1969, with the specific aim of controlling rising overhead costs. It was first tried in Georgia under Jimmy Carter’s governorship and then employed by US federal agencies under the Carter Administration from 1977. Neither attempt produced the expected changes.
A significant variant of the classical rational model is that of bounded rationality, proposed by Herbert A. Simon (Simon 1945). In an extreme synthesis, while he considered human behavior as intentionally rational, i.e. oriented towards a goal achieved by selecting possible alternative means:

- not all the goals and preferences are clear;
- knowledge of the alternatives and their consequences is always limited because gathering information is costly and not all possible alternatives can be considered;
- the ability to process information is also limited;
- it is not possible to order all the alternatives perfectly in rank;
- choice is a sequential process based on what is satisfactory, not optimal. The decision maker does not choose the best solution among all the possible alternatives but, within the limits of her or his computational capacity, analyzes the options until she or he finds one that meets her or his goals and aspirations.

Charles E. Lindblom (1959) seriously questions the rational model in his famous article, “The science of muddling through”. He proposes an alternative model, disjointed incrementalism, clearly explaining why the classical model of rational decision making is inapplicable in practice and therefore not suitable to predict the actual behavior of individuals and groups. Indeed, identifying all possible alternatives, assessing them in terms of costs and benefits, and comparing them is not practically feasible, above all when many of the related decisions are taken by political bodies. Policy makers need consent and operate in an environment highly conditioned by the legitimate interests of different stakeholders. This specificity significantly limits the number of possible alternatives. In other words, the political decision maker is not wholly free to choose among all possible options. Moreover, even with the help of modern information technology, it is impossible to collect and process all the information that the rational model requires. It is also not realistic to choose first the ends, which are always conditioned by the decision maker’s value system and then the means. In practice, choices are often performed simultaneously or in a reverse order to what is assumed: first you analyze the possible means, then you identify the ends that, given the available means, you will be able to achieve. In this way, the means become the ends or significantly determine them.

According to Lindblom, it is not only inevitable but also desirable that many public choices are based on a limited number of alternatives. Public decision making does not start from the specific objectives to be achieved through public policy but from existing policies, which have the advantage of being the output of a previous agreement. The decision concerns only incremental changes and marginal adjustments in relation to the existing policy, and develops through successive and limited comparisons within a reduced number of alternatives. Consequently, the analysis conducted will never be exhaustive and the relationship between means and ends is both continuous and reciprocal. As the object of the decision changes throughout the analysis, adjustments concern not only the solution to the problem but also its definition, meaning that the problems to be dealt with are constantly redefined according to the resources available to resolve them. Not surprisingly, theories are relatively influential in decision-making, tending to focus primarily on the short-term and most significant consequences that could arise from a certain decision, not on all possible consequences.

The most well-known scholar who empirically supported Lindblom’s theory when applied to public budgeting was Aaron Wildavsky: “[t]he beginning of wisdom about an agency budget is that it is almost never actively reviewed as a whole every year … Instead, it is based on last year’s budget with special attention given to a narrow range of increases or decreases” (Wildavsky
1964: 15). Several scholars have criticized incrementalism (cf. Dror 1964; and Etzioni 1967). According to Dror (1964), it is conservative and does not incentivize innovation, reinforcing the interest groups and social forces that have always been more powerful, while potentially leaving out interests with little or no political representation. In fact, incrementalism works better when the results of public policies in place are sufficiently satisfactory and the social problems to be dealt with quite stable.

**Budget functions and principles**

The main functions of a public budget are: political; steering and programming; authorization; and cyclical economic policy, with specific regard to the federal/national government (Mussari 2003).

The *political function* derives from the fact that budget preparation and approval constitute the point at which different social interests are mediated by elected representatives and social aims are selected, as well as the ways of pursuing them. Budget approval by the parliament concretizes a traditional foundation of democracy, since it quantifies the resources that the parliament allows the government to take from citizens and allocate to specific public aims.

The *steering and programming function* consists in predetermining (quantifying and assigning to departments/agencies) the means (financial resources) needed to reach the objectives set. Although the emphasis is on the control of resources, in the budget forecast financial figures (appropriations) can be associated with information about expected operating results (outputs) and performance (efficiency, effectiveness, impact, outcomes). Information about the purposes of expenditure is also obtainable through budget classification by functions/objectives. The most known examples of standards for economic classification are those of the Classification of Functions of Government (COFOG), developed by the OECD.

The *authorization function* is the most typical feature of government budgets. Constraints regard not only the overall amounts of revenues and expenditures, which are related more to the political or economic policy functions, but also the specific purposes of each appropriation. In other words, appropriations approved by the parliament are binding for the managers of the departments/agencies in charge of spending them. Appropriations in the budget constitute limits to commitments and, in a more general sense, to assessments.

The *economic policy function* is due to the great weight and influence of government activities in the national economy; moreover, some interventions, such as transfers, investments in infrastructure, incentives to industry and social welfare, are clearly intended to have an effect on the economic cycle. Lastly, managing the huge flows of money connected with public expenditures and revenues is an important tool of monetary policy. This function is clearly connected to macrobudgeting.

Annual budgets and multi-year budgets have to be prepared and managed respecting the following principles: annuality; unity; specificity; universality; integrity; financial balance; publicity; truthfulness; and clarity (Di Rienzo, 2013: 139; Mussari 2003).

**Annuality (only for the annual budget)**

The annual budget refers to the financial year, which in the majority of countries coincides with the calendar year. For this reason, after December 31 of each year assessments of revenues and commitments cannot be carried out regarding the accounts of the year that has elapsed. At the end of the calendar year, the annual forecast expires and can no longer be used as a legitimate basis for ascertaining financial flows in revenues and using them in expenditures. Naturally, this
implies that the annual budget must be proposed by the executive and approved by the parliament every year, and that the law must regulate possible delays in the approval of the new budget in order to avoid blocking public spending.

**Unity**

The whole amount of revenues indiscriminately finances the whole amount of expenditures. It is not possible to correlate a single revenue to a single expenditure. In other words, the budget refers to an aggregate amount of financial resources that can be comprehensively correlated to the aggregate amount of expenditures: every Euro that comes in indistinctly serves to finance every Euro that goes out. This principle is not threatened by the obligation to cover new or higher expenditures with new or higher revenues or fewer expenditures of a different kind.

**Specificity**

The term means an adequate classification of the revenues and expenditures in the budget in homogeneous and sufficiently analytical aggregates. This makes the budget clearer to read and, above all, renders control more effective, so that the legislative power functions over that of the executive through the budget. On the one hand, rigorous respect for the principle of specificity means avoiding an excessively summarized presentation of the items in the budget, particularly expenditures, so that the parliament can exercise effective prior control over the executive. On the other hand, it means seeking not to over-parcel the items in the budget, which would make the forecast incomprehensible and improperly rigid. The budgeting and accounting reforms of the late 1990s seem to have responded to this last need, having promoted changes to the classical line-item budget format by introducing performance budgeting.

**Universality**

All government revenues and expenditures must be listed in the budget. The financial management must be unique in the same way that the budget is unique, meaning that the use of off-budget funds and separate accounts is prohibited. The law should precisely regulate possible exceptions to this principle, i.e. contingent liabilities.

**Integrity**

All revenues must be listed in the budget, inclusive of the expenditures for collection to be charged to the collecting institution and of other possible connected expenditures. Likewise, all expenditures must be listed in their entirety without any reduction for the related revenues. The offsetting of budget items is prohibited. In this way, greater clarity regarding the budget values is ensured and the possibility of concealing the exact amount of particular operations is reduced.

**Financial balance**

Financial balance consists in perfect equality between the total revenues to be assessed and the total expenditures to be made. This means that the budget must be balanced at the time of its approval but also when it is changed during the financial year. When a comparison is made between all the revenues and all the expenditures, the overall balance can be achieved due to the inclusion of financial inflows coming from long-term loans. In other words, balancing does
not automatically imply the neutrality of public finances. Yet in several countries the law regulates the possibility of taking out loans.

**The golden rule and the EU**

Recourse to the “golden rule”, allowing government to take up debt only to finance public investments as a fiscal policy tool, has been the subject of lively debate, concerning both its application and its interpretation (Fabbrini 2013). As an emergency response to the 2009 sovereign debt crisis, European Union Member States signed the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union (the so-called “fiscal compact”). This Treaty addresses the weaknesses of the previous Stability Growth Pact, which entered into force in 1999, in the field of fiscal policy. Article 3(1)(a) of the fiscal compact states that “the budgetary position of the general government of a Contracting Party shall be balanced or in surplus”. Article 3(1)(c) allows for exceptions and states “the Contracting Parties may temporarily deviate [from their respective medium-term objective] … only in exceptional circumstances”. These circumstances are defined in article 3(3)(b) as “an unusual event outside of the control of the Contracting Party concerned which has a major impact on the financial position of the general government or … periods of severe economic downturn”. To ensure that Member States consider this provision as strictly binding, each contracting party is required to incorporate it in their domestic system through the highest source of law. The motivation is that the financial stability of the whole Monetary Union can be preserved by enhancing fiscal discipline in each Member State. Nonetheless, such a stringent fiscal policy could turn out to stifle public spending, thus limiting public investment that, in the past, was used in many European countries to deal with unemployment.

**Publicity**

The budget must be public and accessible to anyone interested in its contents. This means that budgets and annexes must be open to public scrutiny. The publication of all budget information on government websites is now the most effective way of applying this principle.

**Truthfulness**

The revenues and expenditures listed in the budget must be realistically achievable. The overestimation and/or underestimation of revenues and expenditures are prohibited: only predictable revenues and authorized expenditures can be listed in the budget. Budget forecasts should be as realistic as possible, in order to reduce discrepancies between forecast and actual data and guarantee the right to effective information for the parliament and citizens.

**Clarity**

This requirement is connected with those of specialization, publicity and truthfulness. Clarity means that the budget must be easy and comprehensible for citizens to read, while respecting budgeting and accounting rules and language.
Main budget formats

The financial information contained in a budget can be organized and presented according to different formats. The choice between them cannot be regarded as a simply technical matter. Formats “not only establish the rules by which the budgeting game is played (the decision rules), but they also create the standards by which success is measured (rules of evidence)” (Morgan 2002: 71). The most well-known budget formats are line-item/object/expenditure code budgets and performance budgets.

Line-item budget

The line-item budget is the simplest way of organizing and presenting budget information. It does not require the government to have trained specialists or analysts. Paraphrasing Wildavsky, it could be said that anyone can prepare a line-item budget! Its structure is based on objects of expenditure organized into three main classes: current, capital, and loan reimbursement. Current expenditures are devoted to the purchase of nondurable goods and services, i.e. costs to be sustained for the normal functioning of administration, such as staff, supplies, interest on loans, telephone charges, travel expenses, etc. Capital expenditures are sustained for the purchase of durable goods such as roads, bridges, rail networks, weapons, buildings, equipment, vehicles, etc.

The main classes of expenditure are broken down into categories and, in turn, each category can be divided into subcategories, and then into more detailed items. The greater the detail provided, the lower is management’s discretion in the process of spending public money. Since line-item budgeting was introduced as a mechanism to increase control over public spending, i.e. control on the input, detailed and binding appropriations are normally used. Consequently, piecemeal appropriations make the budget very stiff and require frequent changes in appropriation. Other defects of this format are easily discerned from the description above. The line-item budget favours an incremental approach, since the amount of each detailed appropriation constitutes the basis for the formulation of the budget, without any need to link the budget requirements to performance or to any detailed quantitative or qualitative analysis. Managerial success often lies in simply spending all the money available, since this is the best way to increase the probability of obtaining the largest possible amount of monetary resources in the next budget negotiation. The line-item budget limits managerial accountability to financial compliance. The achievement of performance, and above all, efficiency, is not only independent of the quantity of resources that will become available, but can be counterproductive for public managers. Hypothetically, efficient behavior and consequent savings in expenditure end up generating negative side effects because, by reducing a budget base, an efficient manager is very likely to have reduced resources in future budget negotiations.

Performance budget

The first Hoover Commission in the USA called for the adoption of performance-based budgeting in 1949. However, performance management and measurement became more relevant to governments and other public sector organizations with the so-called New Public Management (NPM) movement (Hood 1995, 1991). This approach, which favours the quantification and measurement of economic performance (economy, efficiency and effectiveness) and shifts the focus of public administration from procedures to results, gives budgets and accounting systems a central role to play (Mussari 2013). Consequently, for many countries pursuing public administration reform, the use of financial and non-financial
performance information has become a key element in budget reforms (Jones and Mussari 2004; Rubin 1996). Several countries have substituted traditional line-item budgets with forms of budgeting aimed at establishing a link between forecast expenses/expenditures and results to be achieved in terms of outputs and/or outcomes.

A performance budget (PB) is a form of budgeting that relates funds allocated to measurable results, in order to inform budget decisions and to “instil greater transparency and accountability throughout the budget process” (OECD 2011: 13). Depending on the degree of linkage between appropriations and performance information, three variants of PB can be distinguished (OECD 2007): presentational, performance-informed and formula-based. In practice, however, the general idea of PB has been implemented in very different ways over the last few decades, depending on the type and level of detail of the data, its role in different stages of the budget cycle, and its integration into general performance management (cf. Schick 2014). Here, we consider performance budgeting as the whole process aimed at linking resources employed (inputs) to measurable results (outputs/outcomes) in order to improve the efficiency, effectiveness and transparency of both goals and results. Thus, the ultimate purpose of PB is to satisfy both managerial and political needs. The former should be met by increasing internal accountability, making each organizational unit responsible for the resources allocated, activities defined and results planned, while the latter should focus more on external accountability, providing information to the public regarding performance objectives and results.

The level of aggregation of performance information included in the budget differs (Mussari et al. 2014; Robinson 2013): sometimes budgets are quite detailed, such as those of local government in Germany (Reichard 2014) and focus on single products or services, while in other countries, such as Italy, the budgets are relatively aggregated and concentrate on missions and programmes. The PB usually provides data and facts regarding different kinds of performance information: inputs, outputs, efficiency, effectiveness, quality, impacts and outcomes. Input figures (e.g. data concerning existing capacities, etc.) and physical output figures (e.g. the quantity of services provided) are most popular, since it is easier to link these performance targets to appropriations. Quality information is less frequently displayed, while information about impacts and outcomes, which usually comes from policy evaluations, remains quite rare.

The main advantages of PB are the increased pressure on departments to take targets seriously and greater consistency between targets defined and resources assigned (Robinson 2013: 51). Gaming and negative side effects are always possible consequences when performance information is calculated and used to distribute financial resources. Above all, the causal relationship between the quantity of money to be spent for a specific programme or service and the impact of improving the social problem being dealt with is very difficult to determine in the ex ante phase. Programme monitoring and management control systems become indispensable tools to support PB during implementation.

**Outcome-based budgeting – Michigan**

The US State of Michigan’s Outcome-Based Budget was an approach to performance budgeting guided by Governor Jennifer M. Granholm in 2003 to develop “a better government” in response to the state’s difficult financial position. (Cf. http://osbm2.osbm.state.nc.us/ncosbm/budget/view_rbb_background.shtm.) The first step in its implementation was the formation of planning groups focusing on six priority areas: Economy, Education, Environment, Health and Human services, Hometown Security, and Better Government. The Governor gained useful information from citizens regarding the budget. These important inputs were used as the basis for budget decisions. All agency budgets were then divided into activities, and each of them was
assigned to the appropriate goal. Within work groups, activities were ranked to determine which of them could be funded within the budget cap assigned, so work group members were encouraged to look at current performance measures and focus on activities to improve results for the public.

**Results-based budgeting – North Carolina**

The State of North Carolina introduced results-based budgeting for fiscal year (FY) 2007–9 with the aim of encouraging more efficient and effective government. In the initial phase, every agency developed a mission statement, goal statements, fund purpose statements, service statements, service analyzes and performance measures (Cf. www.michigan.gov/documents/A13-16_115963_7.pdf). RBB elements permitted more informed decisions and made stakeholders more conscious of the purpose behind each agency and the resources dedicated to each service. Furthermore, it became possible to assess programme effectiveness thanks to the newly introduced performance measures. The focus was placed on the alignment between goals, strategies and budgets, in order to strengthen monitoring and accountability.

For the purpose of clarity, it should be mentioned that we consider programme budgeting as a form of performance budgeting. Examples of programme budgeting systems can be found in France and Italy (Mussari 2013; Robinson 2013). This form of PB cannot be labelled as a formula funding performance budgeting, since the appropriations are not specifically quantified by applying an algebraic formula based on the costs and quantities of the output. Yet the programmes should undoubtedly be prioritized in terms of cost/benefit analysis and expected performance targets – above all, effectiveness – should be associated with each programme in the planning documents, which are prepared upstream of the budget.

**Italian Programme budget**

The Italian programme budget is a relevant example. In 2009, the central government budget reform law introduced programme budgeting. For expenses, funds are allocated to programmes, which are conceived as aggregates of expenditures aimed at the achievement of objectives defined within the scope of missions. The latter represent the main functions and the strategic objectives to be pursued through government expenditure. The achievement of each programme is attributed to a unique administrative unit, each of which is named according to the COFOG. If a programme is attributed to more than one unit, the relative percentage must be reported. The graph below, referring to the fiscal year 2014, shows how funds devoted to a specific mission – “social rights, social policies and family” – were allocated among its component programmes, and thus among the Ministries engaged in the achievement of that mission. (Cf. www.rgs.mef.gov.it/_Documenti/VERSIONE-I/e-GOVERNME1/Contabilit/Pubblicazioni/BudgetdelloStatoaLB2016-2018/Budget_a_LB_2016-2018.pdf)

The histogram also shows the distribution of the total funds allocated to the mission (€86,070,048,289) among the Ministries involved. The Ministry of Economy and Finance (MEF) was involved in the accomplishment of six out of eight programmes on this mission, while the remainder was within the scope of the Ministry of Labor and Welfare. Thus, the Italian budgeting format boosts the prioritization of expenditure, identifying certain priorities within each mission and distributing funds only on that basis. Each unit is responsible for accomplishing its own programmes without over-spending the limits provided.

ZBB can also be considered a kind of performance budget. Each decision unit coincides with a formal organizational unit or with a programme, as long as only one person is responsible
Programme/Mission (%)

**Mission:** social rights, social policies and family

- Support to war retired and similar, victim of political and racial persecution
- Welfare transfers, national funding to social expenditure, social policies promotion and programming
- Voluntary work, NPOs and associations
- Fight to dependences
- Social protections to particular categories

**Figure 31.1** Mission: social rights, social policies and family

for the performance of the unit. According to Pyhrr (1973), each unit has to propose alternative ways of performing the same functions (decision packages) with consequent cuts or increases in funding. Then, the decision packages have to be evaluated in terms of their impact on the performance of the unit and consequently ranked. When ranking is complete, a detailed operating budget can be prepared for the decision packages approved. “One of the basic advantages of ZBB is that an organization can identify a reduced budget level, which still allows it to achieve the most important objective for which it is responsible” (Morgan 2002: 127). However, ZBB does not mean that every organizational unit or programme must always start from zero at the beginning of budget negotiation. In practice, there are always expenditures that cannot be cut, which is the consequence of previously signed and unchangeable contracts.

**Conclusions**

All theoretical propositions, especially the descriptive ones, and consequent practices end up being influenced by the peculiarities of the economic, social and political scenarios in which they are proposed and implemented. Budget theories and practices cannot be an exception.

Incrementalism dominated the post-World War II period and was perfectly consistent with “budgeting for growth” (Schick 1990) in a period characterized by economic expansion and increasing tax revenues. Incrementalism was a successful microbudgeting theory, being short-term oriented and focused on portions of the administration (agencies, departments) rather than the government as a whole.

“Macrobudgeting – high-level decisions on spending, revenue and deficit totals and relative budget shares, often made from the top down – became increasingly prevalent because of the historically large, chronic deficits … [while] … Monetary union among European Union members and the accession criteria for prospective members required strict deficit control” (LeLoup 2002: 18). Although “the shift toward macробudgeting in response to chronic deficits… did not witness the emergence of a single theory to replace incrementalism” (p. 19),
the processes of reform have shown a general tendency towards results-based budgeting. Of course, “results” can have different meanings according to the theoretical perspective chosen to interpret public budgeting. From a microbudgeting perspective, different models of PB have been adopted in many countries, with the aim of motivating and inspiring public managers to perform more effectively and efficiently on the basis of the NPM doctrine. At the same time, from a macrobudgeting perspective, in many countries the focus is on fiscal discipline and on maintaining their financial position, with a growing need to find “fiscal space” to finance public investment without increasing public debt (Marcel 2014).

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