

# Critically Discuss Problems of Budget Coordination in a Public-Sector Organization

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**Abstract:** Since the administrative reform of government departments in the 1980s, public management has emerged in a new way. Since the 2008 financial crisis, in the light of fiscal austerity, how to plan and coordinate the budget within government departments has had a significant effect on the budgeting performance of the whole sector.

**Keywords:** Public Sectors; Public Finance; Public Organization; Public Governance; Good Governance; Public Effectiveness

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## 1. Introduction

Since the administrative reform of government departments in the 1980s, public management has emerged in a new way. Since the 2008 financial crisis, in the light of fiscal austerity, how to plan and coordinate the budget within government departments has had a significant effect on the budgeting performance of the whole sector. Whether under the framework of the conventional public administration or in today's New Public Management (NPM) landscape, the issues associated with budget coordination exist and need to be addressed.

In the conventional administration, the challenges associated with budget coordination can be tackled to some extent as the society evolves. Yet there is still a dark side to this picture, and new issues arise in different administrative context. The first concerns the allocation of the budget, which should be forward-looking and systematic. Reasonable coordination can help relieve financial pressure to some degree, but currently there are still problems with budget structure, which calls for rational planning. Second, in terms of precipitation of government funds, conventional management model may give rise to corruption and fund abuse by some officials, which have long existed in government administration worldwide. It is fatal for the public sector as it may distort the relationship between authorities and private sector individuals. Effective budget coordination can help address these issues but at the same time, it not only demands heavy investment and immense efforts. Thirdly, the budget performance is another issue. In an era of austerity, governments should strive to maximize the budget efficiency. However, as payment process is not well traced and supervised, corruption in departmental levels may occur. Finally, this article will explore potential solutions to the issues mentioned above under the NPM model and good governance, which can contribute to transparency, accountability, efficiency and procedural optimization in budget coordination.

## 2. Rationality of budget coordination

Budget coordination has long been an important method for solving the government's fiscal problems. Budget coordination, which is forward-looking and thorough enough to take account of financial pressures, has become a significant predictor of the direction of reform (WILLIAMSON, 1916). Comprehensive budget coordination is at the center of government public administration and an essential way for the government to perform government duties and alleviate financial pressures. The public sector budget allocation process under the NPM reform is fairer and more detailed than under the conventional government governance system and can substantially relieve financial pressures. The United States adopted a new fiscal budget management mode, the carried out the departmental fiscal budget management to the public management module and, on this basis, implementing the enterprise financial management mechanism, so that, on the presumption of a

sustained decrease of government expenditure, fiscal profits were consecutively reached in 1998 and a public budget deficit of up to 40 years ended in 1999 (Pasten, 2010). NPM reform has made a great reform in the government budget and has produced positive results, but this does not mean that the NPM reform of the budget allocation is not flawed. Budgeting coordination system encountered obstacles in the implementation process: compared to the conventional budget model, the new budget model is forward-looking and systematic, meaning that, in order to calculate the performance of inputs into outputs or results, it is important to prepare ahead of the program to increase the technological and financial requirements of budget preparation. In order to gather data more quickly and comprehensively, the new budget model increases the cost of the administrative departments of the government for the sake of comprehensive information, which is contrary to the government's purpose of reducing expenditure under the NPM model. On the other hand, the new budget model allows the government to be grouped by project, to quantify expenses and production capacity, and to consider the unique roles of each sector. However, due to the vast difference and incomparability of the work nature of each department, the information and procedures differ too. Therefore, the design of performance indicators, the statistics of workload and the cost-benefit analysis are all very heavy and complicated, and the specific implementation measures are complicated. The requirements for splitting the government's sub-budgets are difficult to grasp in this model. Comprehensive budget preparation, on the other hand, must be qualitatively categorized by each budget component in order to be used in separate sub-budgets (WARREN, 2021). This is required to reach a high level, both in terms of budget management and in terms of technological processing. Around the same time, since administrative officials are committed to achieving those basic performance requirements, they expect to receive a total funding and overall planning and, overall, they want to schedule it to achieve maximum effectiveness. As for the parliament, in order to strengthen administrative control, or in order to supervise the local administrative sectors and prevent the budget corruption, most of them want to check the appropriations for each expenditure object, which causes the contradictions between the sectors.

The study of the new budget structure indicates that, while it also has some issues in the existing public administration, but the gains are still immense, it is an important measure of national reform. While the new budget framework is not especially advanced in current administrative management, any new management paradigm involves a learning process, and researches find that countries making budget changes are more likely to adopt legislation that allows for greater performance assessment and monitoring of budget decisions (Keating, 2001). These studies have demonstrated that the reform of the new budget structure is a significant reform movement and that its shortcomings can be resolved by the creation of relative legal mechanisms and supervision systems (Willoughby, 2014).

In the basis of the above research, it can be found that, contrary to the conventional governance paradigm, the new challenge is that reformers need to concentrate on how to make program preparation rational, as well as on the political level and personal enthusiasm to achieve perfection, whilst the monitoring of the budget still need to take measures.

### **3. Fund precipitation**

Budget funding precipitation is possible for any administration, and corruption will occur when politicians have the ability to exploit it, which is lethal to the public sector, impacting and distorting the relationship between government officials and private sector individuals (TANZI, 1998). There are no good solutions under the conventional model, and often produces the issue of corruption in the administrative budget, in the conventional mode of public management, mostly by judicial oversight, supervision at the upper and lower levels can solve the problem of potential official corruption, these measures are mostly identified after corruption has been established, there are no clear legislative criteria to the root of corruption. On the other hand, this kind of supervision is more likely to develop the phenomenon of "covering up". This is the biggest issue with the conventional model.

However, under the NPM model, the rule on zero-based budgeting for administrative land budgets has been the main means of budgeting for public administration (Moore, 1980). It does not take into account historical budget lines and the level of revenue and expenditure. Zero-based budgeting specifically refers to a scientific modern budgeting method which is not affected by the previous budget arrangement, starts from the actual needs, examines each expense and expenditure

standard in the budget year one by one. This concept also considers the financial situation, and prepares the budget on the basis of comprehensive balance. In this way, compared to the conventional way, it can overcome the issue of capital precipitation to a large extent. There is a major distinction between zero-based budgeting and the conventional approach that fundamentally limits administrative corruption: this approach is conducive to raising the consciousness of "input and output" by government officials. Zero-based budgeting starts from "zero" for the observation and review of all company operations (Haxholli, 2015). There is also a need to mobilize authorities to engage in the budgeting process so that unreasonable considerations cannot be held. This enables the rational allocation of funding. Each expenditure is subject to a cost-benefit analysis, whether each project should exist, and the amount of expenditure can be measured and estimated so that the minimal supply of funds to efficient projects will make the allocation of funds more rational. It is conducive to the ingenuity of grassroots companies to engage in the budgeting process. The zero-based budgeting is easy to communicate and coordinate, rendering the ultimate objectives clearer and the goals of multi-business projects more consensual, and helping to leverage grass-roots businesses' initiative, passion and imagination to participate in budgeting. It is conducive to an increase in the standard of budget management. Zero-based budgeting significantly improved the transparency of the budget, would make the budget more practical, would be better able to perform the control of regulation, could eventually standardize the overall planning and execution of the budget, and enhance the level of budget management. (TANZI, 1998) However, while there are many good innovations compared with conventional budgeting approaches, there are also some real difficulties. Because all work begins from zero, the use of zero-based budgeting is a broad workload, with comparatively high costs, the expense of public management would be increased; the stratification, ranking, and allocation of funds may have subjective effects and easily cause conflicts between sectors; the "priority" of any sector's project is relative. Overemphasis on the project may be due to the person concerned only focusing on short-term benefits and neglecting long-term benefits of the company as a whole. Thus, this method applies only to particular sectors, not to all public sectors, and precipitation financing has to be used on the basis of the various conditions of the different sectors. To address this inapplicability, we need to adopt separate budgetary frameworks for different circumstances, and different budgetary mechanisms can address different situations.

#### **4. Maximize the efficiency of capital**

In an age of austerity, every cent has to be spent for optimum effectiveness. The budget should also not only optimize the funds, but also achieve greater efficiency. As part of the budget coordination, NPM's departmental budget performance appraisal is more stimulating and the budgetary performance has been vastly enhanced by the mobilization of official excitement. Every stage will be measured, and officials appraised to improve the efficacy of internal regulation and combat corruption. (Lorenz, 2011) Yet new challenges emerged. In the conventional mode of government governance, expenditure is strictly supervised, but payment process is not well traced and thus gives rise to corruption in departmental levels. However, under the NPM budget reform, the share of the department's budget for the next year largely depends on the utilization of this year's performance, which eliminates fund abuse by officials through the Departmental Budget Performance Evaluation Process. But it is impossible to monitor every sum at the capital source. In such cases, the possibility of wrongdoings can be mitigated by means of public accountability processes. Corruption is a prevalent headache in all countries worldwide, but it is widely accepted that corruption can be avoided, either through improving the management system or enhancing individual moral education. Therefore, successful investigation and prosecution of corruption is necessary, but there is no question that prior deterrence is the remedy. (TANZI, 1998) Corruption is unpreventable, it is a long-standing issue in the executive branch, and the development of a sound oversight mechanism for such issues involves more flexible policies and the participation of more third sector supervisory agencies in order to resolve them effectively.

#### **5. Good governance of the public budget**

Good governance is complex, and the World Bank describes it as the development of inclusiveness and transparency in three main areas: voting, accountability and political stability; efficacy of systems, rules, and government management; legal system, institutional construction and involvement of citizens. The International Monetary Fund defines good governance as

ensuring law enforcement, enhancing productivity and accountability in the public sector, and fighting corruption. USAID describes good governance as transparency, pluralism and public participation in decision-making processes, with a special emphasis on five areas: law enforcement, local government disempowerment, anti-corruption, civil-military cooperation, and strengthened policy execution. Behind these definitions, there is a shared standard, such as governance, which includes the design and execution of the structure, a set of decision-making rules developed by government agencies, etc. The concept of good governance varies with specific policy, policy introduction, specific model framework or system design, like macro-control, fiscal separation, opening up to the outside world, etc., while specific system types include democracy, broad involvement in the decision-making process, effective legislation, etc. (Suna, 2019). It is only through recognizing good governance that we can examine how to keep public finances open and transparent, and citizens involved. Realizing the openness and transparency of the public finance budget requires strengthening the applicable statutes and regulations, and a sound structure of budgetary laws and regulations is a basic requirement for the institutionalization of budgetary transparency. The entire budgeting, revision, consideration and enforcement process should be carried out in a straightforward way and the legislation should not only set down clear and operational rules that ensure fiscal accountability but should also avoid and sanction actions that hinder the process. The second is to reinforce oversight, encourage people to engage in the supervision of financial budget, a strong supervision process helps to increase the accountability of the government budget and, in turn, the transparency of the government budget will ensure the efficient functioning of supervision. The monitoring of the budget is divided into two aspects: the first is the supervision of government agencies and employees, reduces fund abuse, and the second is to open up to the outside world, increase citizen involvement under the NPM system. The last one is the reform and optimization of the budget process. This guarantees the credibility of budget. Integrity in government budgeting includes budget divisions to include both revenue and expenditure. The last and most significant factor is the production of the budget documents and the review of the report. And the material is analyzed and made public, which is also an important aspect of the disclosure.

## Conclusion

Financial coordination has long been an issue that has perplexed multiple agencies. As departmental heads, they not only need to conform to the total budget for financial planning, but also need to determine if their own budget is adequate. Many issues have been well settled under the NPM, in particular the value of officials attach to usage of funds. Through the analysis above, it is evident that budget coordination under the NPM mode can exert beneficial impacts, but it still has some limitations. Through analyzing the drawbacks, the coordination of financial budget can be better grasped.

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