EXPENDITURE MANAGEMENT OF GOVERNMENT BODIES! NEED OF THE HOUR

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ABSTRACT

Expenditure Management and Local Finance also plays very important role in the economic development and well-being of the people of the local area concerned. Therefore, after independence one of the most important objectives of the Government of India was to inculcate a spirit of freedom and self-reliance in each and every walk of life of the people. Among the various measures taken in pursuance of this goal, India adopted the system of self-government at the local level in rural as well as urban areas.
keeping in view the local needs and importance. The main objectives of this study are:
To study and understand the meaning of expenditure management; To study the need and role of expenditure management; To study the features of expenditure management; To study the issues of expenditure management. In this paper, to conduct this study, Research Methodology used, is based on secondary data. The sources used to collect this secondary data include various educational websites, newspapers, journals, research papers and even books.

Key Words: Economic Development; Expenditure Management; Government Bodies; Income; Local Finance; Management.

INTRODUCTION

Finance and Expenditure Management play very important role in the economic development and well-being of the people of the local area concerned. Therefore, after independence one of the most important objectives of the Government of India was to inculcate a spirit of freedom and self-reliance in each and every walk of life of the people. Among the various measures taken in pursuance of this goal, India adopted the system of self-government at the local level in rural as well as urban areas keeping in view the local needs and importance. The Panchayati Raj institutions cover the rural area and urban local authorities namely, Municipal Corporation, municipal councils, municipal committee etc. have been created to cater to the needs and to address the problems of the urban area. The urban local institutes are governed by the separate enactment in each state. Expenditure management involves all the processes to make sure that the finance and income received are utilized such an effective and
efficient manner at right time so as to enhance the economic development of the government bodies.

EXPENDITURE MANAGEMENT

Expenditure management involves all the procedures necessary to ensure that the payments of sums owed by the department are made in an efficient, effective and timely manner. The competencies involved in expenditure management are connected to those required in financial accounting and financial reporting and there are clear links between the three. This, however, reflects the fact that the ownership of the activities to which expenditure management relates ultimately rests with the departments that financial managers serve – the responsibility of the expenditure management function is to provide advice, support, technical and professional expertise to assist line managers in fulfilling their responsibilities.

The main functions carried out by expenditure management specialists cover the following areas:

- processing invoice payments from the capture and verification of the source documents through to the completion and recording of each transaction on the accounting system;
- managing the interface between the department’s payroll and accounting systems and certifying the validity of the payroll to be processed;
- processing other payments due to departmental staff including non-payroll compensation payments, advances and claims.
ASSUMPTIONS

Departmental revenue and expenditure flows are accounted for on a modified cash basis of accounting, i.e. financial flows are normally recorded in the accounting system only when the cash is expended or received. The expenditure management dictionary is therefore based on the cash basis accounting principle and not on the accruals basis where the expenditure/revenue is recorded when the services/goods are rendered.

The work of expenditure management specialists normally comes at the end of a lengthy procedure for the acquisition of goods or services or the payment of payroll or expense claims. Expenditure management specialists are therefore heavily dependent on others, particularly supply chain managers, to ensure that the necessary and appropriate authorizations have been obtained prior to the submission of documents to the Chief Financial Officer’s department.

Throughout this dictionary the assumption has been made that such authorization has been obtained and that once documentation has been verified within the CFO’s department it can be processed for payment.

The dictionary has also been designed on the assumption that financial managers working in national and provincial departments of government are subject to broadly the same working practices and use common IT and other operational systems. At the
same time it is recognized that there can be variations in detailed practice between central and provincial administrations, and between individual provincial administrations, so the specifications have been carefully drafted at a level of generality that ensures that such variations have been accommodated.

OBJECTIVES OF THE STUDY

The main objectives of this study are as follows:

1. To study and understand the meaning of expenditure management.
2. To study the need and role of expenditure management.
3. To study the features of expenditure management.
4. To study the issues of expenditure management.

RESEARCH METHODOLOGY

This paper is mainly based on the secondary data. The sources used to collect this secondary data include various educational websites, newspapers, journals, research papers and even books.

EFFECTIVE EXPENDITURE MANAGEMENT

Effective Expenditure Management (EEM) is a central instrument of economic and development policy. The three over-all goals of EEM are fiscal discipline, strategic resource allocation and good operational management. EEM is also a key component...
in good governance, which rests upon the 'four pillars' of accountability, transparency, predictability and participation. Accountability holds officials responsible for their actions. Transparency involves ensuring access to relevant in-formation at low cost. Predictability results from an environment in which laws and regulations are clear, known in advance, and uniformly and effectively enforced. Participation requires the existence of channels through which reliable information is provided, enabling all stakeholders at all levels to be involved in the consultation and decision-making process.

FEATURES OF EXPENDITURE MANAGEMENT

Past and present results-based expenditure management practices are extensively reviewed elsewhere (OECD, 1997; Rose, 2003). For present purposes it is sufficient to outline some of the main features of the systems which have been put in place –

The origins of and rationales for these practices are multiple:

1. Public expenditure has grown large relative to GNP in developed countries and, with the multiplication of programmes and initiatives, policy objectives and purposes have tended to become confused and incoherent. Governments in various countries have sought to contain expenditure growth and to rationalize programmes and reallocate resources. Some have conducted root-and-branch expenditure reviews, or have attempted ‘zero-based budgeting’ in which all expenditures have regularly to be justified for their consistency with current policies. Others have promoted a focus on outcomes primarily to reinforce cross-ministerial co-operation and co-ordination, and consistency of direction to related programmes.
2. Traditional budgets are presented in terms of the inputs required for each service, using an economic classification of expenditure, but without specificity as to purpose, and often presenting capital expenditure in a separate budget from recurrent expenditure. These practices facilitate traditional audit, but they conceal the policy objectives that expenditures are intended to fulfill, obscuring the true budgetary cost of these policies. The antidote applied to this problem has been ‘programme budgeting’ or ‘output budgeting’, the origins of which lie in the ‘programme planning and budgeting systems’ pioneered in the US at the time of the Second World War. Most OECD countries now present their expenditure estimates, making clear the programmes that are to be financed, their objectives, and the totality of resources to be devoted to them.

3. Public expenditure management practice has begun to copy good private sector management practice in respect of the devolution of responsibility for financial decisions down the line to programme managers. Managers are given much more latitude than formerly to allocate and spend their budgets without reference to higher authority – so long as they respect financial procedures and produce their intended results. Such arrangements make public administration more efficient and effective, but they are predicated on greater clarity and precision about the results expected from individual managers and service providers. They are thus accompanied by a systematic production of personal responsibility (or job) plans for staff.

4. This process has been carried furthest in New Zealand where senior civil servants are given short-term, performance-based, contracts of employment as part of the government’s results-based approach to the management of public expenditure and public administration.

5. These processes for raising standards of internal accountability for results
have been paralleled by increasing pressure for external accountability – for governments’ stewardship of public expenditure overall, and for the results achieved by expenditure programmes. Canada has instituted government-wide accountability to Parliament for results, while the UK has brought in performance audits by national audit bodies, which report to Parliament. Influential sections of public opinion and sectional interest groups are also increasingly vigilant about delivery of results by public administration and about the success or otherwise of public policies.

6. Responding to these pressures, some governments, notably the UK, have sought to instill a performance-based ethos into the conduct of public business in all its aspects by setting monitored performance targets for all service-providing units and administrations in both central and local government, and also for headquarters organizations.

It should be stressed that results-oriented management practices owe much more to empiricism, learning-by-doing and improvisation than they do to any overarching theory. Countries’ practices are in constant evolution – in response to dissatisfaction with past practice, and to satisfy the need for incoming government teams to flaunt a new brand image for their approach to administrative reform.

ISSUES OF EXPENDITURE MANAGEMENT

The implementation of these systems has brought into the open a number of issues on which opinions and practices differ. Some of the most important of these are:
BOTTOM-UP OR TOP-DOWN DEFINITION OF RESULTS

The implementation of results-oriented resource management may have either centralizing, or decentralizing, effects on public administration. In Scandinavian countries and the Netherlands, decentralized administrations are expected to submit their intentions and expectations for review by the central government, but are not systematically treated as cogs in the machinery for delivering central government policy. In Chile, the initiative for proposing targets rests with executive agencies. In countries with federal constitutions, provincial governments implement their own results-based accountability systems, though these must satisfy prescribed standards. In the UK, on the other hand, many targets – for example in health and education – are set by the central government, and individual service-providing units, even in decentralized administrations, are given guidelines on how they should contribute to these national goals.

OUTCOMES vs OUTPUTS

Policies are usually framed in terms of outcomes, rather than outputs. However, outcome achievement is subject to the vagaries of factors which are not under government control, and are often perceptible only after a lengthy lapse of time following policy action. Governments which have used formal performance contracts as the basis for administrative reform, such as New Zealand, have therefore opted for systems of target setting and monitoring using the outputs – which are largely under
the control of service-providers and managers, and for which they can thus be held responsible. This is criticized elsewhere on the grounds that it diverts attention from the ends of public policy, and focuses instead solely on proximate, short-term and technical targets and results, which may be service-provider-defined and tangential to the objectives of policy. In Australia, where an advanced results-oriented budgeting system has been in use for some years, it is obligatory that budget requests specify the policy objectives that requested funds are intended to pursue.

**LINKAGE OF PERFORMANCE MANAGEMENT WITH EXPENDITURE MANAGEMENT**

Results management is usually linked to public expenditure management. The intuitive reason for this is that most public policies can only be pursued with the use of resources provided in the budget, and that resource shortfalls, misuse or waste will, almost inevitably, bring underperformance. Performance depends on both technical efficiency, purpose-related resource allocation, and programme effectiveness. Results-oriented management seeks both to raise standards of efficiency, by forcing managers to seek better ways of using their resources and alternative routes for achieving results, and to reallocate expenditure in line with policy priorities. Thus, in countries that maintain a close link between budgets and results management, output or outcome targets are usually accompanied by targets for efficiency improvement. In the UK, the current system of Public Service Agreements and Service Delivery Agreements is implemented in parallel with public expenditure management rather than as part of it. Treasury prior approval of departments’ PSA/SDA targets is a condition for receiving both a budget expenditure allocation and delegated powers of financial management for its utilization, but expenditure requests are not examined
one by one in the light of the policy objectives and outputs/outcomes towards which they are intended to contribute.

THE ACCOUNTABILITY OF HEADQUARTERS ORGANIZATIONS

Practitioners have found it relatively easy to define quantifiable – thus readily monitorable – targets and performance indicators for public service provision and thus for front-line service-providing staff and organizations. It has proved harder to define equivalent targets for headquarters organizations whose role is to define and adjust policies, to allocate and disburse resources, and to monitor and assess performance. Such indicators as are commonly defined for headquarters organizations tend to be largely unquantified and to rely on the subjective satisfaction of stakeholders.

EXECUTIVE AGENCIES AND OUTSOURCING

One product of pressure to make public services and public administration more effective, efficient and accountable has been to ‘outsource’ public service provision either to private sector contractors or to executive agencies within the public sector. In both cases service-providing staffs are no longer subject to civil service procedures, complementing norms and terms of employment. Managers thus have greater flexibility to innovate and to seek efficiency improvements. Executive agencies and private contractors operate under performance contracts, they are given clear, generally quantified, objectives and targets, and their rewards are contingent on
contract fulfillment. A characteristic of outsourcing arrangements is that implementation of policy is institutionally divorced from policy-making. This may pose principal-agent relation problems, and may impede feedback on performance indications other than those on which agents are contractually obliged to report. Outsourcing has, however, fulfilled its promise in areas where policies are relatively stable and where performance is transparent to governmental principals and to public service users.

PERFORMANCE MANAGEMENT: INCENTIVES, AND SANCTIONS FOR PERFORMANCE SHORTFALLS.

There is consensus about the need for intensified monitoring and performance assessment in results-focused budgeting and management systems. Even if individual managers are well aware of their individual success in attaining their performance targets, it is usually only clear if organizations are fulfilling their intended tasks after the collection and analysis of performance data. There is much less agreement about how to manage performance thereafter, particularly in cases where actual performance is found to be below expectations. The causes of failure to attain targets may be exogenous, and independent of the actions available to service providers, or they may be the fault of over-optimistic targeting, or again they may be due to the wasteful and ineffective use of resources by service providers. A major function of performance assessment is to establish the balance of causality, and then as far as possible to take remedial action. In a purely outsourced contractual framework the remedy for underperformance due to private contractor shortcomings is to terminate the contract and to seek alternative service providers. Contracts may also provide
addition pecuniary rewards for over-performance. When services are provided within the civil service, however, it is harder to apply such draconian sanctions for performance failures, and the instruments available for rewarding performance above expectations, for example performance-related pay, are limited and weak. No fully satisfactory system of rewards and penalties has been elaborated.

CONCLUSION

Expenditure management involves all the procedures necessary to ensure that the payments of sums owed by the department are made in an efficient, effective and timely manner. Finance and Expenditure Management play very important role in the economic development and well-being of the people of the local area concerned. So there is a great need of expenditure management of government bodies.

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