

# Government that Costs Less

By Lim Siong Guan

Singapore's approach to budgeting emphasises obtaining maximum value from pre-determined budgets—'More for the Dollar'—rather than the lowest cost for pre-specified output. This is achieved through a wide variety of measures that adhere to four principles: limit damage to fiscal sustainability, maximise discretion for the departments, measure costs and pursue excellence. Lim Siong Guan described this philosophy, the assumptions behind it, and its practice in a speech at the 5<sup>th</sup> *Global Forum on Re-inventing Government* held in Mexico in November 2003.

## More for the Dollar: Four Principles

Singapore's budgeting approach emphasises 'More for the Dollar'—seeking maximum value from pre-determined expenditure budgets. Four principles underlie the approach:

- Limit damage
- Maximise discretion
- Measure costs, and
- Pursue excellence

Our perspectives for drawing out the economy, efficiency, timeliness and responsiveness we desire can be summarised as:

- There is never enough money to fund all the things the public want from the government.
- The spending departments always know more than the Ministry of Finance about their operations, their real needs and where they can improve.
- There is little point to have annual budget battles, item by item. Any attempt by the

Ministry of Finance to settle budgets by cutting the requests from the departments simply teaches the departments to pad their requests even more in future.

- Although we can measure the costs of producing outputs and achieving outcomes, it is very difficult to determine whether an outcome is worth the money spent.
- It is critical to emphasise process. Good processes will lead to sustained good results, whereas good results by themselves cannot assure sustainable performance.
- It is best to encourage the departments and the Ministry of Finance to see themselves as partners, all on the same side doing what is best for the country.

## Limit Damage

Fiscal stability is fundamental to Singapore's survival, security and success. We seek to limit the damage to fiscal sustainability in the following ways:

*Limit the amount of money available to the government.* Our Constitution limits the government's total expenditure to total revenue over the term of government.

*Limit the demand for subsidies from the public.* We restrain public demand and misuse of resources by insisting on co-payment for subsidised services, the co-payment being least for education, more for health services and highest for public housing. For some services, we also means-test to ensure help goes to those who really need it. For government fees and charges, we do *market pricing* wherever possible. For example, we control traffic congestion by making prospective car owners bid for a limited number of certificates

which entitle them to own a car. We also charge drivers for road use according to the level of congestion.

*Limit departments' budget demands.* We cap funding to the departments at a *fixed percentage of GDP*, and focus on how well they achieve their desired outcomes. Departments know the budget formula and can plan on a multi-year basis, but they also know that their budgets will go up and down with the country's GDP.

If a department *underutilises* its budget by more than 5%, its budget the following year is *adjusted downwards* to better *reflect their real needs*.

The Ministry of Finance also extracts from each department's budget a '*productivity dividend*' pegged to the national productivity growth rate. The dividends are pooled in a '*reinvestment fund*', from which the departments can bid funding for new projects.

To help the departments better manage their cashflow, we allow three *budgeting flexibilities*:

- They can *roll over* up to 5% of their budgets—this reduces the tendency for end-of-year binges;
- They can bring forward their future budgets through *advances* of up to 10% extra, but the advances must be repaid over the next three years with interest; and
- They can *carry forward* for up to three years the budget allotments they do not take up in any year—this enables them to accumulate funds to do larger projects later.

### Maximise Discretion

While the departments' budget caps are predetermined, they can freely decide how to spend their operating budgets and move funds between personnel and other operating costs. This is our '*operating block budget*' system—'block budget' because there is no line by line control, and 'operating' because it applies only to operating expenditure.

For the larger departments, such as Education, Health, Defence, and Home Affairs, we go one step further with '*total block budgets*' which include capital and construction projects also. They can freely move funds between operating and development expenditure.

Another flexibility is our '*net budgeting*' mechanism. Sometimes departments ask for extra funding with the argument that they will be able to recover the costs through fees and charges. The Ministry of Finance will provide the additional budget, but if extra revenues fall short of what was projected, the department will have to make up the shortfall from its operating budget. If the extra revenues exceed projections, the department keeps the benefit.

### Measure Costs

Our budgeting approach is "Do the most with what we can give you!" The departments need to *prioritise* their activities according to the best cost-benefit ratios for economic, social or security outcomes. To decide wisely, they must know their true costs.

Although our Parliament appropriates budgets on a cash basis, the Ministry of Finance internally keeps *resource accounts* on an *accrual basis*. In addition to allowing for the normal non-cash costs like depreciation, we impute rental based on comparable private accommodation and include the cost of capital consumed. We also allocate *resource budgets* that differentiate the cash from the non-cash elements. With 'resource budgets', the departments can now make trade-offs like renting offices instead of building offices.

We have also introduced *Net Economic Value* (NEV) accounting, which is equivalent to the private sector's Economic Value Added accounting. NEV is the 'revenue' of the department less the operating cost less the cost of capital. 'Revenue' is deemed to be the expenditure budget of the department plus fees and charges collected by the department. We expect the departments' NEV to be negative. Our focus is on the change in NEV from one year to the next—the delta NEV. To get positive deltas, the department has to increase 'revenues' (which is not easy), reduce operating costs (which requires a sustained efficiency drive) or reduce capital costs (which requires prudent capital expenditure).

### Pursue Excellence

As departments strive to get the most out of their pre-assigned budgets, they must regularly reprioritise their functions and activities to meet new needs and satisfy rising demands. Continual change has to be well

managed through a process that drives continuous improvement and innovation, pursues economy and excellence, and maintains morale and motivation.

We have an extensive productivity movement in the Singapore Public Service called 'PS21'. 'PS21' stands for '*Public Service for the 21<sup>st</sup> Century*'. It reaches out to all government officers to Welcome Change, Anticipate Change and Execute Change. Its theme is *Continuous Change*; its strategic objective is '*To Be In Time for the Future*'.

How does this relate to getting government that costs less? PS21 is based on the idea that efficiency and economy is a lot about attitude and perspective, that the officer on the ground knows where a lot of the waste and possibilities for improvement are, and that by allowing officers at every level to offer and be recognised for their ideas, they also become much more open to strategic and radical change directed from the top. Thus PS21 seeks *Organisational Excellence*, pursues *Improvement, Innovation and Enterprise*, pays attention to the *Well-Being* of staff, and promotes *Continuous Improvement, Continuous Learning and Teamwork* at all levels.

I offer you some statistics to indicate the achievements of PS21: in our last financial year, we received 728,000 suggestions for improvement from all levels of staff, which translates to 4.8 suggestions per person, of which 60% were implemented. 88% of staff participated in 13,500 Quality Control Circles—which we call 'Work Improvement Teams'—and they completed almost 22,000 projects for improvement, each team on average completing 1.6 projects.

PS21 is extremely important as a backdrop which allows us to respond quickly to changing circumstances. Thus if we were to mount an Economy Drive, we have the structure for it. Because of PS21, we are able to introduce such a campaign with our people already attuned to considering and taking in change. This is not to say they do not have concerns and anxieties—but they are willing to think through the ideas rationally, and give the benefit of the doubt to new proposals.

## Conclusion

In summary, our underlying ideas for government that costs less are: *Limit Damage; Maximise Discretion; Measure Costs* and

*Pursue Excellence*. Our approach is to seek "The Most Output for the Pre-specified Input" rather than "The Least Cost for the Pre-specified Output". Policies and practices to achieve this are all the time works-in-progress. We expect our agencies to be open to fresh ideas, best practices and new challenges all the time. The job of the Ministry of Finance is to help departments succeed as best they can within the available budgets. ■