The Possibility of Budgetary Process Reform by Residents' Participation

Naoki Ogawa and Yuji Mori, University of Shizuoka, Japan, gp1608@u-shizuoka-ken.ac.jp

Abstract

In Japan, the central and the local government have immense debts. Although NPM was introduced as an administrative and fiscal reform, the debt is increasing every year. There is lack of sufficient discussion about reform of the budgetary process which is important in the decision-making of local governments and the residents' participation the budgetary process of municipal affairs. This paper investigates voluntary budgeting reforms as residents' participation in Japan. It also reports some difficulties that two advanced cities, Sapporo and Kita-Kyushu city in Japan, have faced in the budgetary process. Both are advanced local governments which survey residents' opinions in the budgetary process. However, these opinions have little or no impact on the two cities' budgets. Based on this observation, we have developed our "double feedback loop" model to overcome these difficulties.

Keywords: Budgetary Process Reform, Fiscal Reform, Sapporo, Kita-Kyushu

Introduction

Early in the 1990s, central and local governments increased a budget for a public works by issuing national and local bonds. Economic recovery was not effective in spite of the business stimulus. Despite of economic stimulus, economic recovery has not been enough even in 2010's (figure 1).

In recent years, the thought of New Public Management (NPM) was taken in the local government. However, the local government considers the resident to be customers and improvement in customer service was advanced. Because residents did not think that a budget deficit was its responsibility, the government and the local government continued to increase its annual expenditure in spite of revenue reduction.

Source: OECD Factbook (2009)

Figure 1. Trends in public debt to GDP ratio (in central government)

Residents did not notice such a budget deficit at an early stage. Residents play little part in the decision-making. A budgetary process is one of the main causes of fiscal deterioration. According to "Jinno (2007)", the budget in
administration is a binding document of a fixed period. That is, a local government is determining the expenditure for next one year on the budget. The budgetary process which is one of such the important decision-making has been positioned inside the public office until now. Therefore, if other advanced local governments are removed, the information about a budgetary process would not be released, but was released after the budget draft was decided. The size of such a budget made the current budget deficit. When the local government finances fail, the residents will take the last responsibility.

Research Motivation

Because it is in such a large debt, managerial reform in Japanese public sector has been performed. "Reduce expenditure", "Reduce employees" and "Reform organization" was performed in Japan. These reform is only short-term policies. These are only life-prolonging plan until it waits for recovery of tax revenues.

The public administration technique of NPM has been used in Britain, New Zealand, etc. after the 1980s. According to "Osumi (1999)", the NPM definition is performing administration management which assumed residents to be customers. In present Japan, NPM is not discussed like before. But NPM is discussed in foreign countries. In the latest financial crisis, NPM which thought of residents as a customer is changing to new NPM which respects cooperation with residents.

Figure 2. Managerial Reform in Japanese Public Sector

Important features of Japanese budgetary processes are many important decisions are made only before the process, with no feedback for the next budget (Yamamoto, 2005). And disclosures of financial statements by closing accounts do not contribute to decision making an accountability (Yamamoto, 2005). It is required to feed back information to a budgetary process.

In Japan, Central government recommended about local financial statements regarding financial statements as follows.
The trial for which a local government creates company type financial statements was performed in such a request.

### Table 1. Accounting reform in local governments in Japan

<table>
<thead>
<tr>
<th></th>
<th>Prefecture</th>
<th>Municipal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Already introduced (A)</td>
<td>46</td>
<td>1,077</td>
</tr>
<tr>
<td>Standard model</td>
<td>3</td>
<td>100</td>
</tr>
<tr>
<td>Revised MIC model</td>
<td>40</td>
<td>867</td>
</tr>
<tr>
<td>MIC model</td>
<td>1</td>
<td>100</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
<td>10</td>
</tr>
<tr>
<td>In process (B)</td>
<td>1</td>
<td>506</td>
</tr>
<tr>
<td>Standard model</td>
<td>0</td>
<td>51</td>
</tr>
<tr>
<td>Revised MIC model</td>
<td>1</td>
<td>437</td>
</tr>
<tr>
<td>MIC model</td>
<td>0</td>
<td>12</td>
</tr>
<tr>
<td>Other</td>
<td>0</td>
<td>6</td>
</tr>
<tr>
<td>(A) + (B)</td>
<td>47</td>
<td>1,583</td>
</tr>
<tr>
<td>Not introduced</td>
<td>0</td>
<td>133</td>
</tr>
<tr>
<td>Total</td>
<td>47</td>
<td>1,716</td>
</tr>
</tbody>
</table>

Source: Ministry of Internal Affairs and Communications (2011)

In this way, the financial statements are created not less than 90% in cities, wards, towns, and villages, 100% in all prefectures (the Ministry of Internal Affairs and Communications, 2011). The residents rarely sees these financial statements.

According to "Ogawa (2010)", many local governments are not utilizing financial statements effectively.
Almost local governments habitually make financial statements by public accounting reform in Japan. But financial statements are not widely used. What is the purpose of financial statements? It is possible that public accounting systems must be used in budgetary processes.

A long-term policy is required for a true administrative and fiscal reform. We think that the reform of a local government will overthrow the systems. In this report, we research about the budgetary process reform for the residents participate.

**Method of research**

We interviewed Sapporo and Kitakyushu for investigation of reflect the opinions of local residents in the budgetary process. Sapporo and Kitakyushu were performing voluntarily opinion collection of residents. Next, we show the problems and the improvements from an interview result. We interview Sapporo, Kitakyushu, Shizuoka and Hamamatsu which are ordinance-designated city about the improvements. We sent the interview papers about one week before to visit. We heard the reply to the interview papers. And we discussed the matters about the reply.

<table>
<thead>
<tr>
<th>Name of Local Government</th>
<th>Population (Thousand People)</th>
<th>Expenditure (Million Yen) (General Account)</th>
<th>Visited day</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sapporo City</td>
<td>1,897</td>
<td>833,197</td>
<td>2011/6/20</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2012/8/2</td>
</tr>
<tr>
<td>Kitakyusyu City</td>
<td>976</td>
<td>532,064</td>
<td>2011/2/21</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2012/7/30</td>
</tr>
<tr>
<td>Shizuoka City</td>
<td>715</td>
<td>268,709</td>
<td>2011/11/21</td>
</tr>
<tr>
<td>Hamamatsu City</td>
<td>792</td>
<td>278,014</td>
<td>2011/12/5</td>
</tr>
</tbody>
</table>

*Source of population, expenditure: Kessan kado FY2010 (MIC)*

**Table 2. The local governments which we investigated**

**Research Result**

The results of interview for advanced cities (ordinance-designated cities) are the following.
After making budget requests, both cities voluntarily request the opinions of residents. And many opinions were sent from residents. But residents' opinions have almost no influence on the budgets.

**Why doesn't the opinion of residents influence a budgetary process?**

These voluntary trials are a step in the right direction. But their timing is too late to reflect residents' opinions in the budget. After budget requests, budgetary sections concentrate on optimizing the whole budget. That is, budgetary sections are too busy to reflect residents' opinions. The second problem, to disclose their budgets, budgetary sections need to make secure reliable evidence in expenditure. That is, it is difficult to make disclosures earlier. Based on these interviews, we have developed a model of resident participation in the budgetary process.

**A) Feedback loop before making budget request Purposes:** Exchange information before making budget requests

Before a budgetary request, each section discloses the information of the next year's projects based on a manifesto and mid-/long-term plan. Each section holds a town hall meeting, etc. based on this information, and make common agreement of administration with residents. By this common agreement, each section can make the budget requests which is reflected the residents' opinion.
Figure 6. Feedback loop before making budget request

(B) Feedback loop after making budget request Purposes: After budget requests, local government should concentrate on budget compilation

A local government discloses the forecasted financial statements and the budgeting process at each assessment stage. Thereby, the residents can check a result of a feedback loop of (A). Moreover, a local government creates a budget draft with checking the financial condition by forecasted financial statements. The residents can check that a local government budgets for the common agreement and the budgetary requests were deleted in the assessment stage.

Figure 7. Feedback loop after making budget request

We can perform budgetary process reform for the residents participation by joint two feedback loops.
Figure 8. Residents participation and disclosure through double feedback loop

We interviewed Sapporo, Kitakyushu, Shizuoka and Hamamatsu for investigation of the possibility of double feedback loop. The following are results of the possibility and the improvements of the residents participation to the budgeting.

<table>
<thead>
<tr>
<th></th>
<th>About the residents participation for budgeting</th>
<th>About double feedback loop</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Shizuoka City</strong></td>
<td>The local assembly is intervening not from after budget creation but from the creation process. It is difficult how to treat the residents opinion by thinking from a democratic principle. It is the residents participation that a district lawmaker advises each section.</td>
<td>It seems that the double loop is close to performing. But the data of a middle fiscal plan are enough as forecasted financial statements.</td>
</tr>
<tr>
<td><strong>Hamamatsu City</strong></td>
<td>Each section is always receiving the opinion from the residents. We are holding the public hearing meeting etc. and are receiving mail for the mayor. It is not necessary to hear an opinion at the time of budgetary request creation.</td>
<td>We use the forecasted financial statements and the financial statements for internal decision-making. It is hard to consider the public comment by the public presentation. There is doubt in the effect of opinion collection. Because the opinion of the residents tends to become individual.</td>
</tr>
</tbody>
</table>

Source: Author.
Table 3. Interview results

In this way, the budget process in Japan as present is an adjustment process. We have understood that decision-making was performed at the time of planing process. As Shizuoka and Kitakyushu had said, The feedback loop before making the budget request was able to obtain a certain amount of approval. The forecasted financial statements of the feedback loop of the budgetary processes showed as we were able to feel the resistance against the increase of office work. The fiscal plan has created a traditional model. However, the feedback loop of a budgetary process was not denied.

Conclusion and future development
Japan has a large budget deficit after the collapse of the economy bubble. This budget deficit does not belong to the head and the local government personnel. Administration is considered to be a sovereign. Service of the local government is performed by administration. But sovereigns are the residents. The residents take final responsibility of assets and debts. In Japan, expenditure is increasing to the welfare of an aging society with an immense budget deficit. Moreover it is clear that tax revenues decrease by a falling birth rate, etc. Therefore, the residents and the administration should manage jointly.

There is a need to communication between residents and local government for joint management. Local governments and residents have dialogues at budget requests. Through disclosure of budgetary process and its future influences, residents choose their own risks and benefits, and supervise the decision-making process of local government. Active residents participation advances regional vitalization.

We would like to examine to the Korea and Britain systems which have already institutionalized the participation in the residents budgetary process.
References


Makoto Hayashi. 2011. Nihon no dennseihetu densizitiitai no gennzyo no kadai to kanousei [The present subject and possibility of a digital government and a digital local government of Japan]: The Japan Society for Management Information

Masahiko Ozaki, Hodaka Nakanishi. 2011. Tiikikeizaikasseikayouin no kennkyuu [Research of a regional economy activation factor]: RIELT Policy Discussion Paper Serise 11-P-014

Masatoshi Tamamura. 2003. NPM toha nanika, Pabulikkusekuta no keizai ・ keieigaku [What is NPM, Economy and business administration of a public sector]: NTTsyuppan

Michael Hammer and James Champy. 1993. REENGINEERING THE CORPORATION:

Nicholas Brealey Publishing


Ministry of Internal Affairs and Communications. 2011. Tihoukoukyoudanntai no heisei21nenndobann zaimusyorui no sakuseizyoukyou [The creation situation of the the 2009 fiscal year financial documents of a municipal corporation]

Naohiko Jinno. 2007. Zaiseigaku(Kaiteiban) [Public finance (revised edition)]: Yuukakusya


Shinichi Ueyama. 1999. Gyouseikeiei no zidai [The time of public administration management]: NTTsyuppan


The Association for Promotion of Public Local Information and Communication. 2010. Zititai gyoumu apurike-syou yunitto hyouzyunsiyou V2.2 [Municipal corporation operating application unit standard specification V2.2]

