

Balanced Budget

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Chapter

03



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SOUND PUBLIC FINANCE

Fiscal stability is fundamental to Singapore's survival, security and success. MOF ensures that public finances are on a sound footing so that Singapore's economy will continue to grow and be resilient. It does this by maintaining a balanced budget.

The focus of government expenditure is on delivering essential public goods and services, promoting sustained and non-inflationary economic growth, and preparing Singapore for the challenges to come. While we spend to assure ourselves of a secure future, we run a balanced budget and keep government expenditure within revenue over the course of the business cycle. That is, what we spend is always equal to or less than what we earn or receive.

Not only is the budget balanced in fiscal terms, but it seeks a good distribution of budget provisions for the many demands in economic development, social development, defence and security, and government administration.

BALANCED EXPENDITURE ACROSS SECTORS

Expenditure is also distributed appropriately across all sectors, be it in the social development, economic development, security and external relations, or government administration sector.

The largest share of the government's expenditure budget goes to the social development sector (education, public housing, and health). The second largest sector is security and external relations, followed by economic development, and then government administration.

SECTORAL EXPENDITURE

Social Development

Investment in social development reinforces the principle of building Singapore upon the ideas of Opportunity and Home. The basic building block of opportunity is education and continuous learning backed by good health and physical and mental well-being. Our pro-family and home ownership policies go hand-in-hand with community support and assistance for the disadvantaged to make Singapore a world-class home.

Security and External Relations

National security is essential for guarding the wealth of our people and securing investors' confidence. Our strong defence policy is complemented by external relations policies that work towards greater international stability, cooperation and the consolidation of friendly relations with all countries.

Economic Development

A strong economy is critical, not just for the well-being of the individuals in a country, but also to the ability of the government to raise sufficient revenues to sustain the provision of public goods and services. The government invests heavily in economic infrastructure and the capability of the workforce, while taking steps to create fiscal and monetary conditions that are conducive to business and investment.

Government Administration

Central government agencies comprising the judiciary, parliament, and financial departments of the government uphold the strict rule of law; enforce appropriate finance and personnel policies for the public sector; and maximise returns on government's investments.

BUDGET POLICIES PRINCIPLES

MOF ensures that the public sector is efficient and prudent and uses public funds responsibly. It does this by establishing limits and maximising discretion in the way the public sector departments use public funds.

Establish Limits

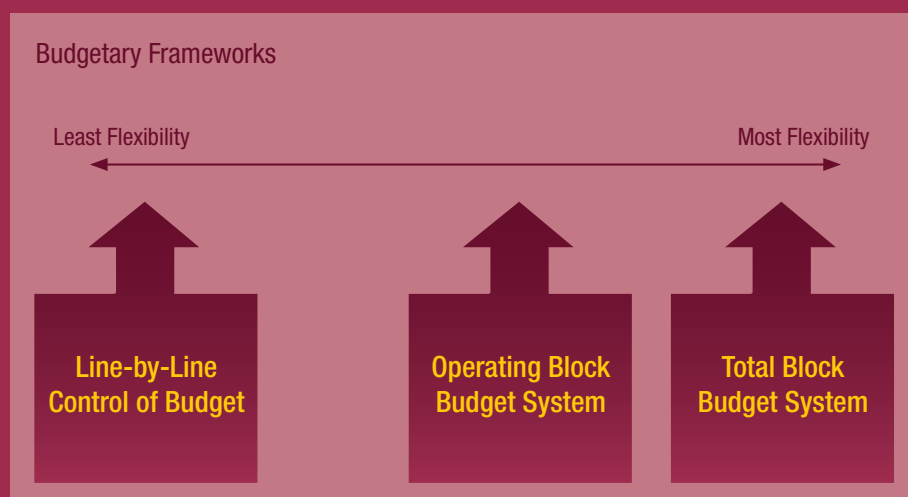
We cap funding to the ministries at a fixed percentage of GDP, and focus on how well they achieve their desired outcomes. Ministries know their assigned shares and can plan on a multi-year basis, but they also know that their budgets will go up and down with the country's GDP. Any department that uses less than 95% of its budget will have its budget the following year adjusted downwards to better reflect its real needs.

MOF also extracts from each department's budget a 'productivity dividend' pegged to the national productivity growth rate. Contributions are pooled to a common fund, called the Reinvestment Fund, from which all the agencies can bid for the use of funds. This redistributes resources, and creates a source of funding (that might otherwise not be available in the tight fiscal environment) for new worthwhile projects.

Maximise Discretion

MOF believes that the ministries know their operations best. While the ministries' budget caps are determined beforehand, they can freely decide how to spend their operating budgets and move funds between their personnel and other operating costs. This is the '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 ministries, we have gone one step further with 'total block budgets', which include capital and construction projects also. They can freely move funds between their operating and development expenditure.



Living Within our Means - Challenges and Choices

Fiscal prudence has been a hallmark of Singapore's governing philosophy and successful management of the economy. MOF continually ensures that the public sector is efficient and lives within its means. All departments and agencies have to derive maximum value from their expenditure budgets. This philosophy applies in both good times and bad. There are several challenges and choices facing us as we do this.

Balancing the Budget over the Business Cycle

Our pragmatic and prudent governance and expenditure policies have allowed us to accumulate substantial surpluses while continuing to invest in high value infrastructure over the past three decades. Going forward, economic growth is expected to fluctuate more, and around a lower trend value as the economy matures. To allow the economy to remain nimble and competitive, we have cut taxes for businesses and individuals since Financial Year 2000 (FY2000) even though how much we will collect as revenue has become less certain. Going forward, it will be an even greater challenge for the government to run a balanced budget.

More than ever, therefore, all departments must play their part to achieve a balanced budget over the business cycle to avoid structural deficits. By living within our means, we seek to accumulate a modest budget surplus wherever possible, putting aside something in good years so that we have some savings to draw upon in bad years. This buffer allows our government to run deficits when there are global economic restructuring imperatives, threats to national security and other challenges, while preserving the long term financial security of Singapore. A good example of this principle in action was when our government provided relief for individuals and businesses during the unexpected downturn in 2002, and the SARS outbreak in 2003.

Long Term Fiscal Sustainability

Living within our means needs to be extended beyond the business cycle. Rising healthcare costs, an ageing population, global labour competition, and the uncertain security environment will continue to demand higher public spending. We have formulated an overall fiscal policy and specific initiatives in public spending that are consistent with our long term strategy of a trim and effective public sector that is self-sufficient.

Economy Drive

The civil service-wide Economy Drive was launched in May 2003, to further strengthen the philosophy of prudence and to put into action our commitment to have a trimmer public sector that can handle the challenges ahead early.

Under the Economy Drive, the Cut Waste Panel allows the public to give feedback on how the public sector can reduce wasteful practices and reap savings when delivering its services. The Best Sourcing Initiative requires all agencies to undergo market-testing to ensure that if private sector vendors can provide a service at a lower cost, they will be engaged to do so.

Permanent Downward Adjustments to Ministries' Budgets

MOF has permanently revised downwards all ministries' allocated budgets by 2% in FY2004, and a further 3% again in FY2005.

Strategic Review of Functions

To achieve genuine and long term strategic adjustments to spending, MOF will periodically review public functions and on-going programmes with the ministries. The exercise will both review the efficiency of the ministries' organisational structures, and re-examine major policy programmes that will impact our economic and social development.

Enhancing Excellence in the Public Sector

The public service has always sought to deliver the maximum from limited resources. This is even more relevant and crucial as we face the population and economic challenges ahead.

- ***Resource Management Initiative***

MOF's Resource Management Initiative helps ministries develop a greater awareness of the real value that the public places on their services, and the true cost of delivering them so as to achieve better outcomes.

- ***Public Service for the 21st Century (PS21)***

PS21 is the productivity movement in the Singapore Public Service that allows us to respond quickly to changing circumstances through a process that drives continuous improvement and innovation, pursues economy and excellence, and maintains morale and motivation.