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Considerations on the Public Funds Use Based on the Performance: Program Budgeting

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Abstract: Performance concept in economics is a characteristic of economic processes arising from the need to save resources that fall within these processes, while carrying out activities specific to every public entity under the highest quality conditions. In recent years, even the most developed economies feel more and more the need to spend public resources efficiently, effectively and economically, as the defining elements of the performance criteria on the use of these resources. Elaboration and implementation of the budget in terms of efficiency, economy and effectiveness is a prerequisite for achieving appropriate economic and financial

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management of public resources. This is not just a legal obligation but also a necessity in order to achieve a healthy management, with beneficial effects in economic, social and sustainable development. This study aims to capture some defining elements and key points of performance in the use of public funds by program budgets, considering the recent years' developments related to this method of budget substantiation and implementation.

Keywords: program budget, performance, economy, efficiency, effectiveness

JEL Classification: H59, H61

1. Introduction

In the public sector, performance can be defined as the characteristic of activities, programs, projects and of general overall activity, which reflects the optimum degree of distress in their financial and economic management. It also reflects the efforts made to use special methods and practices for obtaining the desired qualitative and quantitative results.

A key approach in conducting a sound management of public expenditure directed towards efficiency, derived from methods used in the foundation of public expenditure. Thus, over recent years, use of program budgets has been a method of budget elaboration and implementation that can effectively ensure the rational and efficient use of public funds.

However, there are still many difficulties in the actual implementation of such a budget because it requires a real involvement of all stakeholders as to eliminate subjectivity and the formal aspects of established programs, and to provide and monitor the direct link between objectives, indicators and results.

This study outlines some issues related to: defining elements of program budgets, status of implementation of performance-based budgets using program budgets key aspects to achieve performance through program budgets.

2. Defining Elements of Program Budgets

According to the regulations governing the public finances (Law no. 500/2002 on public finances, the Order of the Ministry of Public Finance no. 1159/2004 for approval of the instructions on the programs content, presentation and structure), a program budget is an action or a coherent set of actions that relate to the same manager of a public institution, designed to achieve an objective or a set of defined objectives. Indicators are established to assess results to be achieved within the approved funding.

Implementation and extension of financing based on programs have the following main advantages:

- making consistent decisions on how funds are allocated based on the priorities;

- efficient and economical use of public funds;
- identifying and highlighting indicators to express the expected results;
- establishing lines of action and expected results within the program duration.

To this end, the programs are accompanied by annual performance estimation, which must include: actions, associated costs, objectives, results and forecast for future years, as measured by precise and well justified indicators. Program budgets usually reflect public policy objectives set out in the Governance Program Strategy. The objectives of these budgets should be more related to effects and less to provide operational needs for public institutions. This type of budget causes concern to managers of public institutions for the compliance with the deadlines and approved indicators at the expense of concern to spend all the budgetary approved resources (Văcărel, 2002).

This is a strategic objective, because the actual transition from the budgetary classification structure to a budget structured on activities defined by objectives associated with performance indicators is a complex

process, justified by the fact that the coverage of public institutions activities through programs containing targets and indicators requires clear allocation of resources for the implementation of the programs and changing the organizational and functioning strategy of the institutions managing the budgetary programs.

During the period covered so far on the implementation of budgetary programs, the responsibility to run those programs was given to the managers of the public institutions. They have the obligation to adapt the programs to every subordinate institution they are required to manage, according to legal regulations specific to each program separately. Therefore may be cases where efforts can be localized to the upper level, while the effects are obtained at a lower level or cases with results felt at all levels.

Defining priorities, as a basis for program budgeting, is becoming increasingly necessary, as for the countries of Economic and Monetary Union. A series of budget constraints are required in these countries, involving reducing costs while social needs are increasing (due to factors such as aging population that

requires additional resources for health and social assistance) (Reviglio, 2001).

Setting priorities and the combination of performance indicators is not the necessary and sufficient condition for the success of these programs, resulted in achieving the desired performance. Thus, after the selection of programs follows the definition of objectives, with characteristics such as: not very numerous, coordinated, consistent, clear, measurable and with deadlines.

The indicators related to programs are physical or monetary quantities used to measure issues such as: achieving a high quality (excellence) at minimal cost (inexpensive), fulfilment of objectives (effectiveness) and obtaining the best ratio between resources and results (efficiency). In addition, depending on the characteristics and nature of each program, indicators can reflect the social impact and equity, and these may be obtained and compared with each other when they relate to identical activities conducted in different geographical areas or time periods.

According to the coordinates set for program budgets in other countries (like Spain), indicators

associated to budgetary programs must have the following characteristics: be relevant, objective, unequivocal and available. In addition to these features others may be also necessary, such as: reliability, timeliness, comparability and consistency (Boboc and Petrescu, 2008).

For a clear description and to facilitate an adequate tracking of performance in achieving the desired budgetary programs, there has to be broad and enough indicators. From this point of view, there may be established:

- indicators of means - measure the costs and quantify the factors used directly or indirectly on the activity;
- physical indicators - measured in numbers or units;
- results indicators - measured actual results against the planned results;
- environmental indicators - collect data from outside the program that have an influence on it;
- impact indicators - measure the effect the program has on the affected group;

- quality indicators - measuring the degree of achieving quality within standards.

Taking into account the ratio between the indicators and the performance they have to describe, there are:

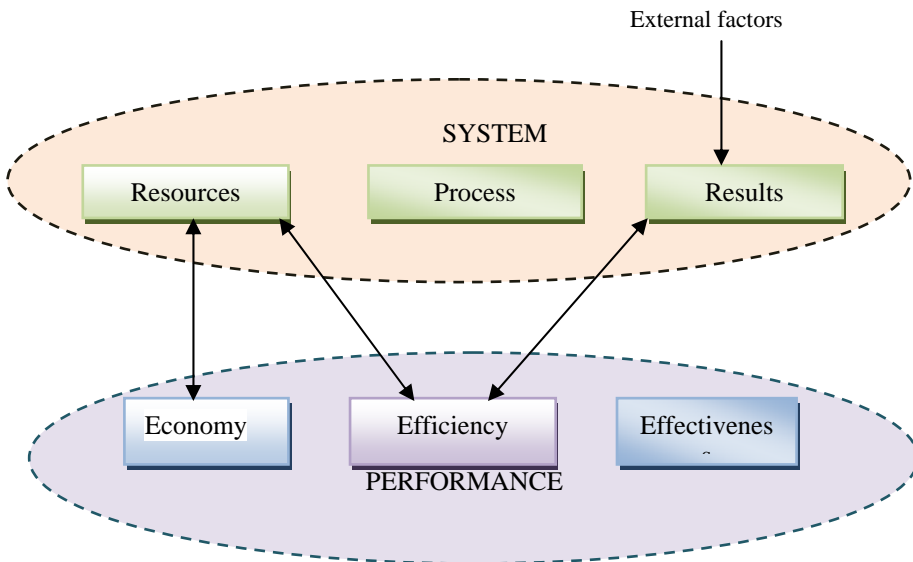
- effectiveness indicators - measuring the degree of fulfilment of the set objectives;
- economical indicators - measuring the conditions under which the entity that runs the program procure the necessary resources to implement it;
- efficiency indicators - measuring the efficiency of a service rendered or bought commodity, compared to its cost. Efficiency can be regarded as economic value, being the only aspect which can be neglected at a cost increase related to economic welfare or social targets (Văcărel et al., 2007).

In fact, the three characteristics mentioned above are the general criteria for assessing the performance of public resources (Crețu et al., 2010). These criteria are set out also in the Council Regulation no. 1605/2002 on

the Financial Regulation applicable to the general budget of the European Communities as part of the principle of sound financial management.

Direction and interaction between these three concepts can be represented as follows:

Figure no. 1: Model illustrating the concepts of efficiency, economy and effectiveness



Source: www.curteadeconturi.ro

3. Status of Performance Based Budgets' Implementation

Studies conducted so far in the field believe that many countries are moving towards a form of performance based budgeting. However the actual implementation of the budget based on objectives and results is very difficult because there is rarely a direct link between result indicators and resource allocation (Petkova, 2009).

Thus, years ago, many countries have abandoned traditional budget foundation methods in favour of modern methods, such as those from U.S. and France. In the U.S., P.P.B.S. method ("Planning Programming Budgeting System"), is oriented towards programs and study the short or medium term emerging needs. This method includes the following steps: distributing programs on government activities, performances evaluation and reporting these performances. In France, RCB-method ("Rationalisation des Choix Budgetaires") resulted from the need to adapt and improve the preparation of the basic principles of budgetary decisions and public finance management.

Rationality of the expenses is based on the following elements: optimal policy and indicators of effectiveness, the system and objectives analyzes and the principles of budget management (Moșteanu et al., 2008).

Optimal overall policy is the result of summation of policies with the same characteristics which results in a set of decisions associated with possible situations. Optimal policy is associated with indicators of efficiency which in turn are the result of cost and performance requirements of state public services.

Analysis of the objectives and the system constitutes the essence of modern methods based on permanent confrontation between objectives and means, between specialists and decision makers, taking into account the ongoing evolution of these reference factors. Budget management principles as part of the RCB method involves developing a strategic plan, setting targets, monitoring results and creating an information management system on measures to achieve effects in rationalization of budgetary expenditure.

Program budgets implementation in different countries of south-eastern Europe, including Romania, reveals different aspects, as presented by Tandberg and

Pavesic-Skerlep (2009). Romania has set the coordinates for the elaboration of the program budgets. Since 2007, the Ministry of Finance has asked ministries to provide information on strategies, results, effectiveness and performance indicators. But data do not show full compliance and quality. For 2008 budget year, the requirements have been compromised as a result of the reorganization of government as there is no clear link between results and budgetary decisions. In Bulgaria, all ministries and state institutions have developed a program structure for their activities, including performance indicators. Budgets are developed based on established programs and according to economic classification, but accounting systems do not allow proper monitoring of implementation programs. Croatia has established a program structure, but efforts to introduce the program budgets have had limited impact so far. There is no clear link between government priorities and budget allocations and less importance is given to cost efficiency. In Serbia, a program structure has been established for five pilot ministries within the 2007 budget with the intention to be extended later on to other

ministries. The introduction of performance indicators and, generally speaking, orientation to performance in this country, proves to be a long term effort. In Slovenia a program structure is set, but the budget contains a number of indicators that do not focus on results and performance information and is not systematically used in the budget process. In Montenegro, a program budget structure has been established for several public entities, but their budget was not properly amended in accordance with this structure. In Moldova a program budget structure has been established for all ministries, but the programs are based on different conceptual approaches and they are often descriptions of activities. In Bosnia-Herzegovina, the program budget concept exists, but there is no formalized structure established and no performance indicators are used.

However, it is important to note that even in more developed European countries, the link between resources and results is still unclear, ranging from one country to another with percentages between 10% (Austria, Denmark) and 90% (France, Sweden) (Nispen and Posseth, 2009).

4. Key Aspects of Performance Achievement through Program Budgets

The performance given by the established indicators should not be viewed in the abstract, but in conjunction with other relevant elements for the success of programs. These main elements are presented in box no. 1.

Box no. 1: Performance indicators

- consistency of targets and indicators - in the sense that the indicators have a direct link with the objectives and cover them in full;
- substantiation of result indicators on real data and calculations;
- linking budget of the program with cost and result indicators;
- establish a hierarchy of indicators within the defining elements of the program (which are most relevant indicators set for the program?);
- correlating the time limits with the fulfilment of the program objectives;
- no significant differences between the needed funds, the approved funds and the used funds;
- review the progress throughout the program, taking into account that the budget plans are usually multi-annual, except for the institution support functioning programs;
- eliminate the risk of reaching erroneous data by ensuring that data used to calculate the indicators are complete or they are not affected by other factors unrelated to the indicator;
- existence of entities responsible for the program;
- compliance with regulations specific to programs;
- existence of standards (established by regulations) for monitoring performance indicators;
- adequacy of legal regulations;
- reality and opportunity of the priorities underlying objectives;
- existence of a competent and sufficient staff for the program;
- ensuring adequate transparency to achieve the objectives;
- making predictions for the coming years, statistical calculations, simulations to assess how to meet the objectives at their deadline;
- establishment of appropriate reporting framework on the progress towards the targets.

If in the case of economy the entity aims to quantify the achieved savings by different ways (on condition of not compromising the objectives set), measuring the efficiency and effectiveness of programs is a conceptual challenge for specialists, because of the multiple objectives of public sector and the issues of results quantification (Mandl et al., 2008). In some cases, such as education, measuring outcomes is a strategic objective in the long run, because the resources invested in education are static and the effects are obtained dynamically, resulting in economic growth (Crețan and Iacob, 2009).

The elaboration of the budget based on performance should not be seen as an isolated action, but it must be part of a broader set of reforms, aimed at a public management results-oriented for providing better public services. This set of measures should include a number of organizational, institutional and oversight changes in order to increase public responsibility for performance (Robinson and Last, 2009).

In the same context, a solid institutional framework contributes significantly to the budgetary

discipline improvement with effects in enhancing the public sector activity performance (Fabrizio and Mody, 2008).

At macroeconomic level, the performance related to the use of public funds is localized mainly to the objectives set by the governmental strategy of a country. In this case, precedence should be given to the consideration of the expected effects and to the premises leading to these effects (Stroe and Armeanu, 2005).

Performance can be achieved not only through a direct relationship between resources and results but also by concurrent action of the management directed to control and regulation of economic processes. Therefore monitoring is an integral part of the program budgeting implementation and according to the practice of some countries, like Germany, that may be identified with the concept of "Controlling", which is a combination of qualitative and quantitative control tools, introduced to coordinate information and support decision-making processes, specifically for management (Boboc et al., 2007).

At company level, controlling system requires a strict control in all processes not only financial, but also in sales, investment and human resources since only by integrating all these one can understand the indicators showing the profitability of the company. Controlling function is needed in order to achieve business performance and by its pursuit the financial risk areas and the causes of deviations from an established business plan are identified and recommendations to improve company performance may be available. Controlling function is known as a key element of performance in management (Boboc and Petrescu, 2008).

In the public sector, controlling occupies an important place in all decision-making and monitoring tools that are able to provide sound economic and financial management at the level of public resource users, generating performance in using these resources, with beneficial consequences for the state budget. Controlling function, as it is perceived in public institutions from European countries, is exercised only when funds are used as program budgets or product budgets. Product budgets are budgets related to

permanent needs of an institution, which covers expenditure directed towards public services (such as granting of permits, certificates, licenses).

In this context, a new concept used in the audit conducted by some European institutions is to remember, namely the assessment. This is a form of controlling, with focus on effects external of an entity running a program or engaged in certain activities (influence on society, on the natural environment, other economic areas, etc.) and is performed by the same core responsible for the controlling. In other words, the assessment is a strategic controlling, which measures the effects outside the entity, effects usually felt much later than those inside.

This evaluation is most often performed by using existing statistics, conducted by specialized institutions. Where public funds are allocated to support certain categories of beneficiaries in making investments designed to have a favourable social and economic overall impact, assessment of the external effects can be made also:

- using data reported by the beneficiaries of the activity or program in response to the

conditions on mandatory reporting of such data set by conventions, contracts, commitments, etc.;

- analysis of the observance of conditions imposed to beneficiaries, such as requiring recipients to use the funds as agreed, subject to sanctions in cases of abuse and even the obligation to return the allocated funds.

The evaluation is prepared during the activity planning stage and has to meet the requirement to obtain a durable result. This activity should be well set at the beginning, should have clear criteria so as to avoid costs with external evaluators.

In the case of multi-sectorial programs, when tasks are dissipated in several institutions, a working group, a committee or a common structure has to be appointed, in order to be responsible for the development and full evaluation of the project.

Generally speaking, public sector performance evaluation focuses on areas of public interest covered by programs, projects and may take different forms depending on the purpose, namely: formative

assessment, summary evaluation, ex ante (as a deterrent) evaluation, mid-term evaluation, ex post (after) evaluation, internal evaluation, external evaluation (Moşteanu et al., 2006).

Regarding the evaluation of programs I find most relevant mid-term evaluation, during programs or activities, because they aim to eliminate failures in real time, and ex post evaluations, at the end programs or activities.

Importance has to be given also to the entity own assessment, which is made at the end of the year, together with the report on budget execution. In order to meet transparency requirements, this assessment has to contain non-financial performance information, including a comparison of performance objectives and actual results (OECD, 2002).

The main objective of these assessments is to highlight the value of a program, which involves the issue of value judgments on the extent to which a program's performance was good or not. To this end, assurance that value judgments are not arbitrary is needed. This assurance is difficult to ascertain because of impediments like: expressing vague objectives, the

existence of several objectives in the form of results or consequences, and evaluating the program as it runs.

4. Conclusions

Ensuring effective budget implementation performance by public institutions is becoming increasingly necessary, given the economic crisis and the general public need to save resources. Note however that the move to performance budgeting is made with slow steps, especially by the Southeast European countries. In this group, Romania is on a better position than other countries, although during the program budgets elaboration, as method to ensure budget execution performance, the used data does not have an adequate quality and there is no direct link between objectives and results.

In this context, repeatedly identifying the key points providing program budgeting performance is an ongoing challenge for specialists in the field. One of the key points is to associate and develop performance indicators (György, 2010) and to ensure their proper quality.

In contrast, performance measurement raises problems because the public sector often can not quantify the results. Therefore, occurring difficulties are related to methods used in performance evaluation, so the result of the evaluation will be based on sound data and contribute to consistent and realistic decisions.

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