

EXPECTATIONS RELATED TO THE IMPLEMENTATION OF PERFORMANCE BUDGET IN MUNICIPALITIES

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Abstract

Local governments adopt performance budgeting for a number of reasons, identified in many areas of the commune's operations including service management, work organization, decision-making process and, above all, at every stage of the budget process. Prior research focuses mainly on the effects of performance budgeting implementation such as increased efficiency of financial resources management and increased transparency and openness of the budget and the opportunity to rationalize the costs of implementing specific tasks or improvements of the allocation of public funds. Using a questionnaire, this study contributes by identifying the expectations of local governments related to the implementation of performance budgets in municipalities. A second contribution is in revealing the kinds of documents with which the performance budget should be linked and determining who should be responsible for its implementation in municipalities. The survey was conducted among 45 selected communes which are located in Warmia and Mazury voivodship. The results of the survey show that the greatest expectation in implementing the task budget was the desire to create better financial management in the municipality and to create a clearer budget for management, employees and residents of the municipality. According to the respondents, persons who should be involved in the process of budget preparation in the new task system should be the commune administrator or the treasurer of the commune. Most municipalities, as a means of transferring information about the budget assumptions, propose using a commune's website and an information board at the commune office.

OCZEKIWANIA ZWIĄZANE Z WDROŻENIEM BUDŻETU ZADANIOWEGO W GMINACH

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Słowa kluczowe: budżet zadaniowy, gminy, oczekiwania, dokumenty.

Abstract

Samorządy adaptują budżetowanie zadaniowe z wielu powodów zidentyfikowanych w różnych obszarach funkcjonowania gminy – zarządzania usługami, organizacji pracy, procesie decyzyjnym, a przede wszystkim na każdym etapie procesu budżetowego. Wcześniejsze badania koncentrują się głównie na takich efektach wdrożenia budżetu zadaniowego, jak: większa efektywność zarządzania zasobami finansowymi, większa przejrzystość i otwartość budżetu, możliwość racjonalizacji kosztów realizacji konkretnych zadań, poprawa alokacji środków publicznych. Celem badań przeprowadzonych z wykorzystaniem metody ankiety była identyfikacja oczekiwań władz lokalnych związanych z wdrażaniem budżetu zadaniowego w gminach. Opisano również rodzaje dokumentów, z którymi należy powiązać budżet wykonania zadań, oraz określono, kto powinien odpowiadać za jego wdrożenie w gminach. Badaniem objęto 45 wybranych gmin zlokalizowanych w województwie warmińsko-mazurskim. Badania wykazały, że po wdrożeniu budżetu zadaniowego najbardziej jest oczekiwane lepsze zarządzanie finansami w gminie oraz utworzenie budżetu bardziej przejrzystego dla kadry zarządzającej, pracowników i mieszkańców gminy. Zdaniem ankietowanych osobami, które powinny być zaangażowane w proces opracowania budżetu w nowym układzie zadaniowym, powinien być wójt bądź skarbnik gminy. Większość gmin proponuje stronę internetową gminy oraz tablicę informacyjną w urzędzie gminy jako środek przekazu informacji o założeniach budżetu.

Introduction

In the last decade, performance measurement has emerged as one of the most important public sector management reforms, surpassing management by objectives, total quality management, zero-based budgeting or program planning (GILMOUR, LEWIS 2006). Closely related to performance measurement is performance budgeting, or performance-based budgeting, which seeks to link the findings of performance measurement to budget allocations (JOYCE 1999).

Performance budgeting roots date back to Anglo-Saxon tradition. The history of performance-based budgeting is in essence a history of public sector reforms that reach as far back as the end of the 1940s. It appeared then to be the key driving force of budget innovations in the USA (SCHICK 2007). The performance budget concept was introduced and associated with the under-performing of public finances due to the use of the traditional budgeting model (LEWIS

1952). The new concept of budgeting in the performance system was intended to replace the traditional procedure. Over the decades, this idea has been expanded and its implementation has taken place not only at the level of government administration, but also at the level of self-government units. Over time, it has spread to other countries, including the European Union.

In Poland, some self-governments have implemented a performance budgeting in the 1990s under the Partnership for Local Governance Program, funded by USAID (United States Agency for International Development). However, after their first experience, some of them withdrew from the experiment discouraged by a difficult procedure or the high costs of installing an IT program (WEBER 2011).

The city of Cracow was the precursor of the implementation of the performance budget followed by, among others, Lublin, Poznań and Szczecin. At present, dozens of self-governments in Poland use task-based budgeting, but its scope varies (e.g., it covers individual areas of activity of a local government unit and/or its government in its entirety (KACZURAK-KOZAK 2013, p. 181, 182).

The performance-based budget in Poland is most often used as a presentation tool and, only to a moderate extent, as an instrument increasing the efficiency and effectiveness of spending public funds. Achieving better results of its application will be possible if it is related to management control (KARGOL-WASILUK, WOJEWÓDKO 2016, p. 155). A new approach to managing public funds involves the introduction of other management methods and instruments such as multi-annual planning or internal auditing. These methods provide the opportunity to measure the effectiveness of the tasks performed and the level of satisfaction of the society with the goods and services provided by JST (local government units) (FILIPIAK 2011, p. 224, 225).

The most commonly cited definition of a performance budget is the definition formulated by R. Allen and D. Tomassi, according to which, the task budget “assigns financial operations by the government (administration) to functions and programs that meet specific socio-economic objectives; defining metrics for each program or task, and measuring the costs of performing these tasks and their effects” (ALLEN, TOMASSI 2001).

Performance-based budgeting (PBB) is the practice of developing flexible financial management tools to increase the efficiency and productivity of public institutions both in developed and developing countries (ERKUTLU et al. 2017).

Among the Polish public finance specialists, Lubińska said that performance budgeting is “managing public funds through appropriately defined and hierarchical objectives, to achieve specific outcomes (performance goals) measured by a set system of measures. The task budget allows us to determine which tasks are most important for the achievement of objectives, and with the help of indicators it shows how far they have been accomplished” (*Budżet zadaniowy w Polsce...* 2007, p. 9).

With regard to the local government unit, it is possible to say that „the performance budget is a financial plan prepared in the following way: before

the planned expenditure is recognized in accordance with the budget classification in force, the local government prepares the programs – defines results declarations for them and draws up plans to provide services” (*Budżet jako narzędzie zarządzania...* 2000).

In many definitions of performance budgeting there is an emphasis on the importance of managerial freedom in budget management. The performance budgeting focus is on accountability for the results produced, rather than on control of how those results are produced (ROBINSON 2007, p. 1).

From the controlling viewpoint, the most common type of performance budget is performance budgeting – often identified with a task budget in general. In the Polish literature, performance budgeting is defined as effective budgeting, although it is not an accurate description, because from a methodological point of view, effective budgeting is the development and refinement of classical task-based budgeting and it also places higher demands on municipalities (BIELAWSKI 2013, p. 199).

The increase in the efficiency of managing the financial resources of local government units can be achieved by using appropriate methods of planning and distribution of budgeted funds, based on cost analysis and the application of modern management methods, including innovative solutions for budget creation and implementation (SIERAK 2011, p. 102). A performance-based budget is a modern concept of preparation and implementation of the budget of the commune. Its essence is to bind revenues and budgetary expenditures with specific public tasks, while simultaneously considering the multi-annual investment plans of the municipality. There is also a link to the budgets in the accounting system of the municipality, which makes it easier to calculate the costs of municipal services.

The task-based budget is also a significant enhancement of the classical budgeting method in the municipality in terms of reporting and analysis of its implementation and the study of cost-effectiveness relationships. It uses different types of indicators describing the degree of budgetary tasks and their effectiveness.

When evaluating the functions within public finance units, the level of effectiveness is determined, which is related to the performance of budgetary tasks and the satisfaction of social needs (MODZELEWSKI 2014, p. 44).

Activity-based budgeting emphasizes not only the allocation of public funds, but also the assessment of the efficiency of public tasks that have used these funds (SZOLNO 2014, p. 504).

Due to the fact that the provisions in the Act on Public Finances of 2009 relating to the implementation of the budget in the task system for the local governments was optional (Ustawa z 27 sierpnia 2009 r. o finansach publicznych, Journal of Laws of 2009, no 157), few municipalities decide to implement it. According to public finance law, the task budget does not replace the traditional budget, but merely constitutes an additional form of subscription. As a result of this misalignment of the rules, municipalities that implement the task budget

cannot abandon the traditional budget, which makes them reluctant to adopt this financial plan despite the many benefits associated with its implementation.

The most frequently mentioned benefits of performance budgeting include: increased transparency and openness of the budget, the opportunity to rationalize the implementation of individual tasks, improving the allocation of public funds, combining planning in the short, medium and long term, the introduction of direct responsibility for the implementation of budgetary tasks, and ultimately increasing the quality management of the local government unit (SIERAK 2011, p. 119). In the context of the above-mentioned advantages of budgeting in a task setting, the main aim of the article was to identify local governments' expectations related to the implementation of the activity budget. The paper also discusses the issues with which the task budget should be linked and determines who should be responsible for its implementation in municipalities.

Research method and research sample

The study was conducted using a questionnaire. The survey questionnaire was designed to select 45 of the 116 municipal offices located in Warmia-Mazury voivodship. Sample selection was targeted and guided by a geographic criterion. The survey was conducted in the communes which expressed their willingness to participate in the study.

The research assumes that municipal finance managers expect that the task-based budget is primarily used to increase budget transparency and responsibility of the commune's employees for its realization and long-term expenditure planning. Statistical analysis of interdependence of non-measurable features was performed to assess the significance of relationships between selected features (χ^2 test, and Cramer's V factor). To verify the H_0 hypothesis, the significance level was assumed $\alpha = 0.05$. Correlation analysis was continued only in the case of rejecting the null hypothesis about the stochastic independence of the observed variables.

In the research sample more than half (56%) constituted rural communities. One in four respondents was an urban-rural municipality, while the smallest percentage, about 20%, was urban municipality.

Among the surveyed communes, every fifth municipality occupied a relatively small area of 100 km². The same surveyed units were communes with an area of over 300 km². The other entities are municipalities with an area of 100 km² to 300 km².

In most of the surveyed communes, the population was in the range of 5,000–10,000 people. Only in 7% of the communes the number of inhabitants exceeded 40,000 (Fig. 1).

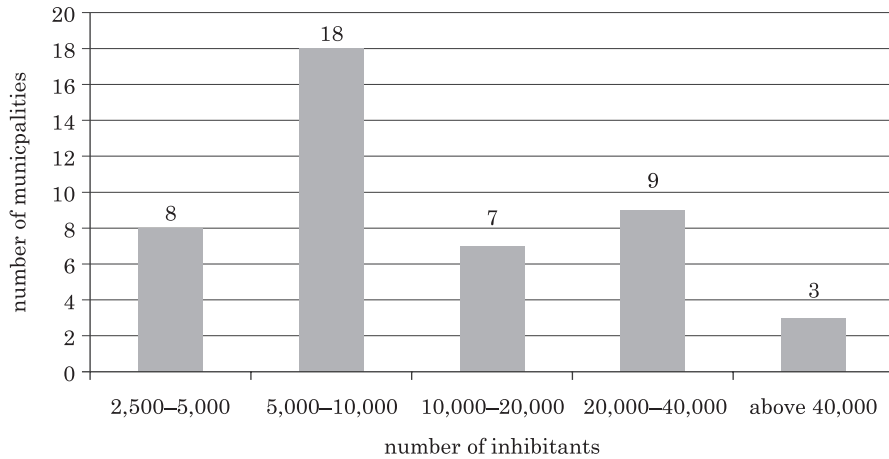


Fig. 1. Nubmer of inihabitants in the surveyed municipalities

Source: own elaboration.

In the examined communes, a high share of subsidies in the budget was noted. About 64% of the surveyed communes exceeded 20% of the budget. For 17% of the surveyed entities the share of subsidies ranged between 15% and 20% of the budget, and for 14% of respondents the subsidies ranged from 10% to 15% of the budget revenue. Only in 5% of the surveyed entities this component was less than 10%.

Another important component in the budget of the examined communes was subsidies (Fig. 2). According to E. Wojciechowski, they should, together with their own incomes, be the main source of local government financing (*Samorząd terytorialny w Polsce 2014*, p. 35).

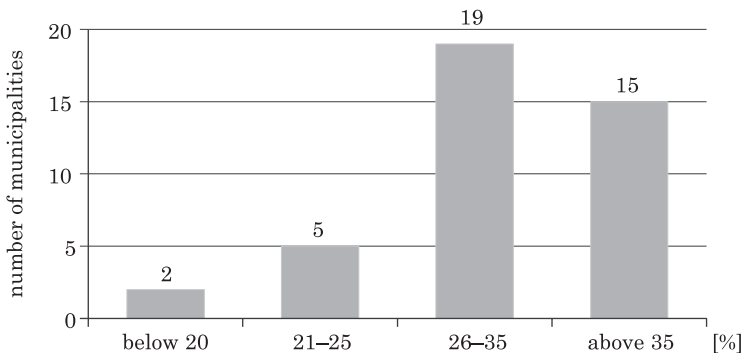


Fig. 2. The share of general subsidies in the budget of the surveyed municipalities

Source: own elaboration.

Nearly half of the surveyed municipalities accounted for between 25% and 35% of the budget and 37% of municipalities were over 35%. Only 12% of the sample was within the range of 20–25%. For the other municipalities, subsidies have little influence on the budget as they represent less than 20% of the budget revenues (Fig. 2).

Also analyzed were the income in the examined municipalities per capita. Nearly 25% of the surveyed communities did not exceed 1,200 PLN per person, while the majority (in 47% of the surveyed units) was above 1,900 PLN (Fig. 3).

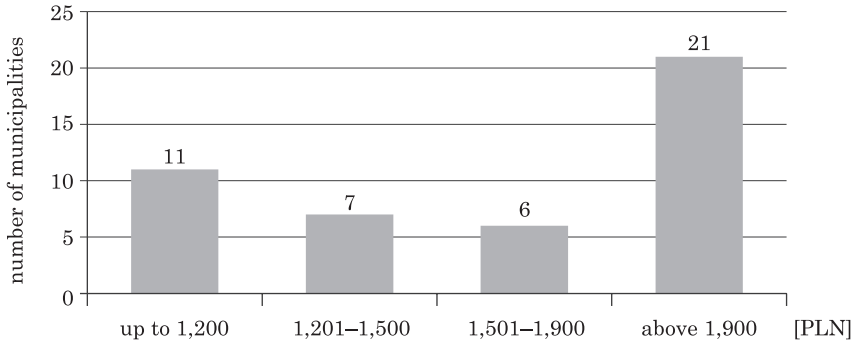


Fig. 3. Income per capita in the surveyed municipalities

Source: own elaboration.

Results

Research on performance budgeting in selected municipalities was performed by verifying the number of entities that had a performance budget. According to the respondents, only 4 municipalities (9%) prepared the budget in a task system. A statistical analysis was carried out to test the hypotheses concerning linking characteristics of the examined communes with the development of the task budget. The study revealed no relationship between having a performance budget and the features characterizing the analyzed municipalities. In each case, the index *p* exceeded the boundary value of 0.05 (Tab. 1).

Having learned about the small number of communes that prepare the performance budget, an attempt was made to examine what effects the municipality would expect after its implementation. More than 53% of the respondents expected better financial management of the municipality. Few respondents (over 48%) expected increased budget transparency. To a lesser degree, about 27% of the respondents, expected the following from the task budget: providing new information on financial issues and tasks, multiannual expenditure planning and better coordination in the municipality. In turn, about 15% of the respondents identified a significant effect of the implementation of the task budget would be

Tabela 1

The relationship between the implementation of performance budget and the features characterising the studied municipalities

Features	Chi ²	<i>p</i>
Area	3.681	0.719
Number of inhabitants	2.790	0.946
Total income	4.432	0.816
Total expenses	4.228	0.835
Income per capita	5.990	0.424
Own income	2.364	0.883
Subsity	5.977	0.425
General subsidies	3.776	0.706
Type of municipality	3.384	0.495

Source: own elaboration.

to increase the responsibility of individual employees of the municipality and better cooperation in the municipality¹ (Fig. 4).

The elaborated performance budget should be closely linked to the planning documents of the municipality and, in particular, to the municipality's development strategy. In order to verify the knowledge and intentions of the surveyed communes, it was asked what documents should be linked to the budget in the task system (Fig. 5).

Most of the municipalities indicated the use of two documents. According to 67% of municipalities, this document is a commune development strategy, and in the opinion of half of the respondents, the performance budget should be linked to the Multiannual Financial Plan. Almost half of the respondents also believe that the budget in a task system should be linked to the Multiannual Investment Plan (Fig. 5).

Access to information contained in the budget should be provided to the inhabitants of the municipality. According to the report on local self-government in Poland, residents of municipalities generally have little information about where their money is allocated to (*Samorząd terytorialny w Polsce*, 2014, p. 39, 40).

In the analyzed research sample, most municipalities provide information on the budget to stakeholders in several ways: the most common (78% of communes) was the municipality's website. In the era of the Internet the website is the best medium that allows stakeholders to quickly get the data needed. Another way of communicating information about budget assumptions, practiced by 58% of the surveyed communes, was an information board at the municipality office.

¹ The survey conducted among the municipalities that implemented the performance budget shows that the greatest benefits are: involvement of middle management in planning, better presentation of tasks, improvement of planning procedures, better monitoring of tasks (*Budżet władz lokalnych* 2002, p. 141).

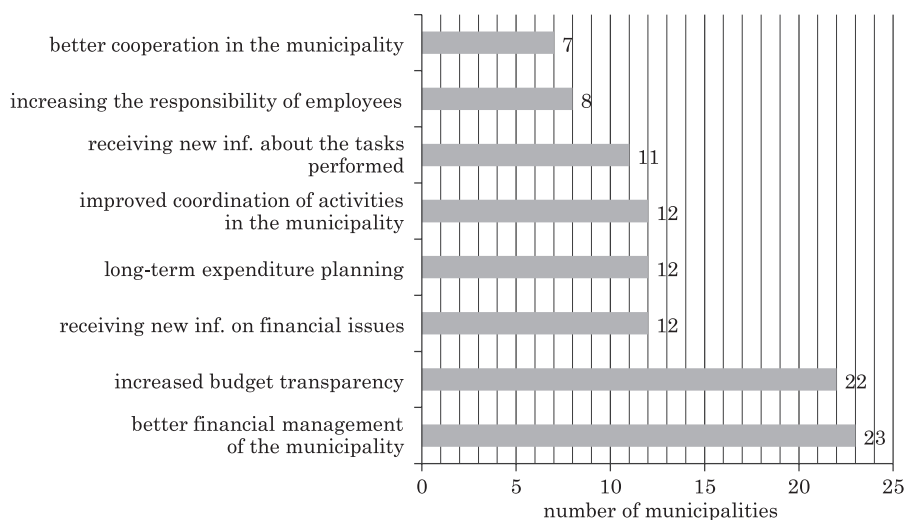


Fig. 4. Expectations related to performance budget implementation

Source: own elaboration.

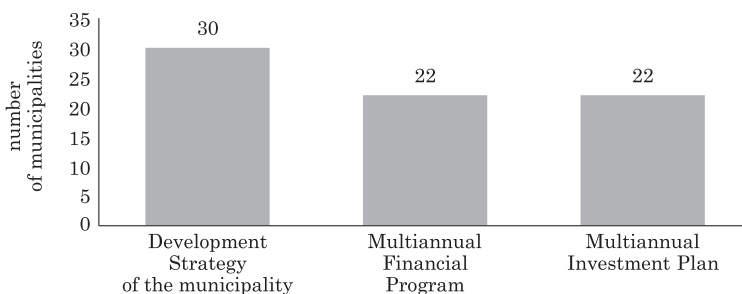


Fig. 5. Documents, which should be linked to performance budget

Source: own elaboration.

This method is particularly important for people who do not have access to the Internet. Less often (20%) used was the local press. The communication method was usually chosen by the municipalities. In addition, a small percentage of the surveyed communes (about 4%) also indicated other ways of informing the inhabitants about the budget assumptions (e.g., the commune bulletin or the mayor himself) (Fig. 6).

The process of creating a performance budget, including the definition of tasks and measures, involves a number of individuals. The most frequently mentioned individual (about 90% of the respondents) who is or will be involved in this process, was a mayor. The next most common individual mentioned (about 78% of municipalities surveyed) is the commune treasurer (Fig. 7)².

² On the other hand, research on the task budget carried out by M. Będzieszak showed that the treasurers, the directors of the municipal office departments and the employees were most

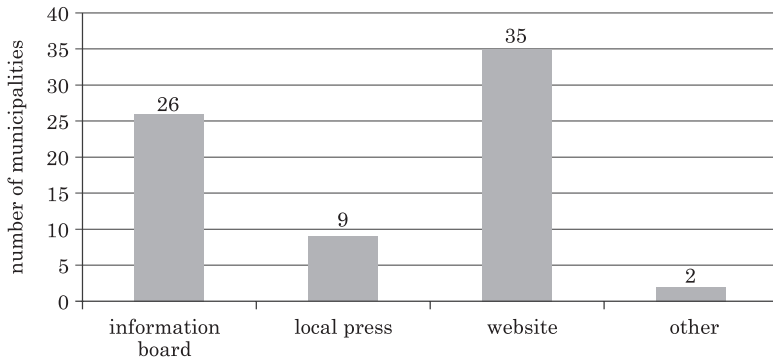


Fig. 6. Way to inform the inhabitants of municipality about the assumptions of budget
Source: own elaboration.

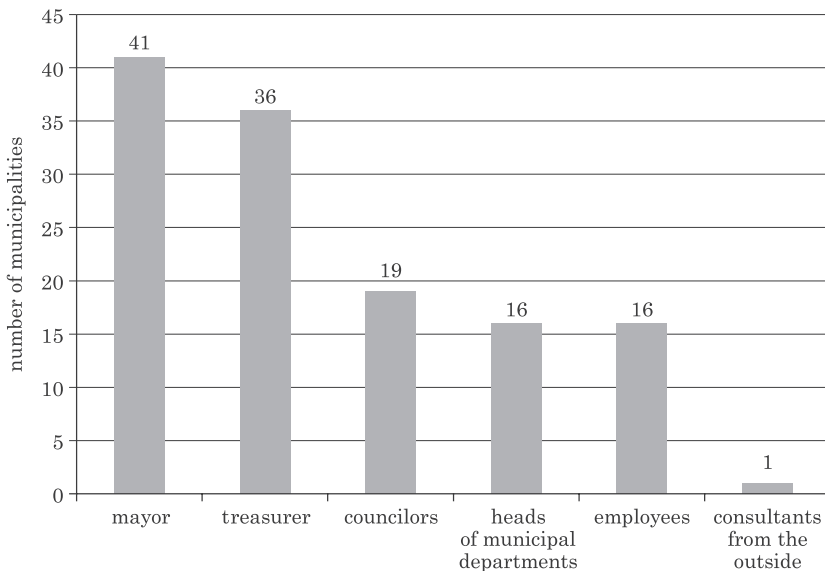


Fig. 7. People involved in creating the performance budget
Source: own elaboration.

More than half of the communes (51%) indicated councilors as responsible for developing the performance budget. A smaller number of respondents (33%) indicated that department heads or staff members of the municipality were involved in the task budget. Only 2% of the surveyed respondents indicated that external consultants were involved in this process (Fig. 7).

involved in the definition of tasks and their components. The employees of the board (the mayor, the president and his deputies), councilors or external consultants were less involved (BĘDZIESZAK 2009).

Conclusion

The performance budget is one of the modern management tools used in local self-government units. It allows for the proper and effective use of public funds by linking public finance with the results that are achieved through each budgeted tasks.

The performance budget, as a modern management tool, is rarely used in municipalities. This is due to the fact that individuals do not have experience in implementing this financial plan. In addition, it is an additional budget and cannot replace the traditional budget at this time. It can only be a complement to the traditional plan and therefore is associated with additional workload. Because performance budgets are not required in the task system, only a small number of municipalities decide to undertake this additional task. Municipalities, in order to manage public finances well, should begin to see the modern budget as a tool that will increase the efficiency and effectiveness of spending public funds.

The conducted research confirmed the research hypothesis, assuming that the greatest expectation associated with the implementation of performance budgeting is the desire to create better financial management in the municipality and to establish a more transparent budget for managers, employees and local residents.

Among the most frequently mentioned persons, who should be involved in the budget process in the new task system, was the commune administrator or treasurer. Respondents in the surveyed communes are aware that budget assumptions must be made available to residents. Most municipalities, as a means of transmitting information on budget assumptions, propose the use of the commune's website and an information board at the municipality's office.

The task budget cannot replace the traditional budget, but can only be a supplement to it. This causes the municipality to feel reluctant to create a new budget. Besides, since it is a form of non-obligatory budget, self-government units do not want to take on additional work. As long as the rules are not changed and the task budget is not mandatory in municipalities, despite the many benefits of its implementation, self-government units will take conservative action in budgeting the new system.

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