

Task-based budget as a method of local government financial management

Pr. Dr. Jacek Stasiak¹

1, „Herbrand” Centrum Medyczne NZOZ w Aleksandrowie Łódzkim

e-mail: jacek_stasiak@interia.pl

Summary: The aim of this article is to present task-based budgeting as a new method of public finance management: from the central budget to the budgets of the lowest level. Particular attention was paid to the aims and objectives of the budget, as well as to its performance indicators. The publication is theoretical in nature and deals with the analysis of targeted budgeting with regard to public finance, especially in the context of the central government budget.

Keywords: financial management, planning, budget, public tasks.

1. Introduction

Local government authorities, like other public sector entities, are looking for tools to manage their finances more effectively. They concern two areas of local government activity, or rather the management of local government activities. The first area relates to the planning of spending in terms of subject matter, i.e., determining what public services, in what quantity and quality, should be provided to the local community. Examples include the task-based budget, which should ensure effective and efficient implementation of tasks imposed on local government units of a given level, and the multi-annual investment plan. The second area is financial management in its broadest sense to ensure, among other things, the efficient use of

public funds. Examples of such instruments are the multi-year financial plan and the current and active budgets. These areas are naturally interlinked and complement each other, and their separation is intended to indicate the main reason for using these tools. Expenditure planning methods also serve *strictly* financial purposes, and financial management also serves the subject of expenditure planning. At the same time, public participation is very important in both cases.

2. Traditional and task-based budgeting

The applicable law regulating the principles of financial management of entities of the public finance sector - the Public Finance Act [8] - specifies in detail the procedure of budget planning, with reference to both the state budget and the budget of local government units. At the same time, the way of presenting the budget was defined. The Regulation of the Minister of Finance of 22 July 2019 on the detailed classification of income, expenditure, revenue and expenses and funds from foreign [5] sources defines the division of the state budget into: parts, divisions and chapters and local government budgets into: chapters and sections. However, such a division is non-uniform in nature. While divisions are the subject of discussion, both parts and chapters are the subjects of discussion, making it impossible to distinguish between the public task being performed and the entity that is to perform the task, thus rendering the budget illegible.

The most important element of the budgetary procedure, from the point of view of the performance of public tasks, is the determination of the planned amount of expenditure relating to those tasks. In Polish budgetary practice, the most widely used planning method is the historical (traditional) method, in which the starting point is the structure and volume of public expenditure in periods preceding the planning process. Therefore, it does not take into account the need to annually determine the purposefulness of expenditure and, what seems even more important, the need to link the number of financial outlays allocated for the implementation of specific tasks with the effects achieved by the implementation of these tasks. At the same time, the main factor determining the amount of these public expenditures in specific areas of state and local government activity is the available resources, primarily financial, while reporting assesses the level of execution of expenditures rather than the achievement of the tasks.

This method was also used in other countries. Public authorities of highly developed countries, noticing its imperfection, began to make attempts to improve or even completely

change the system of planning, implementation and evaluation of budget execution. Currently, the most commonly cited model of a country where the public sector functions effectively and efficiently is New Zealand. The country started implementing reforms in the late 1980s when it became clear that at the level of the central budget:

- most ministries do not have clearly defined goals and plans,
- there are few effective control mechanisms to indicate the achievements of ministries in implementing their tasks,
- too much attention is focused on the resources available to implement the tasks,
- there were no effective mechanisms in place to address underperformance.

Nowadays, many other countries also follow similar principles [1]: the first is to increase the efficiency and effectiveness of government programmes and public organisations and to provide the government with concrete information on performance for decision-making and the setting of future objectives and priorities, and the second is to help to reduce expenditure; providing information to assist in the reallocation of resources between programmes and to provide the Minister of Finance with a mechanism to monitor the performance of government organisations and their achievements - introduced budgeting methods different from the traditional one - more oriented towards results achieved through the implementation of public tasks, i.e. as a result of budgetary expenditure.

The budgeting methods applied in the reformed systems of public finance may, with a certain degree of generalisation, be divided into those that focus on the results of tasks implemented and those that refer to social and economic objectives set by public authorities. A synthetic characterisation of these systems is presented in the table.

Table 1. Key characteristics of traditional, results-oriented and goal-oriented budgeting

Budgeting type	Characteristics
Traditional (<i>input-focused</i>)	Management focuses on the financial, personnel, etc. resources available to implement a programme or government policy. The system does not receive information about what has been achieved with the resources available.
Result-oriented (<i>output-focused</i>)	The functions of public organisations are described by the goods and services provided and their quantity. Results-oriented management and budgeting rely heavily on indicators such as quantity and timeliness.

Target-based (<i>outcome-focused</i>)	Priorities of public authorities' activities are usually expressed in terms of achieving specific goals. Target-based budgeting facilitates the reallocation of resources and supports the process of priority formulation, implementation and evaluation.
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Source: own elaboration based on: E. Malinowska-Misiąg, W. Misiąg, *Public finance management. From gmina budgets to global strategies*, Poltext, Warsaw 2020, p. 79.

Results-oriented budgeting refers to the goods and services provided by incurring the public expenditure. This determines the quantity of these goods and services be provided to citizens, their quality and their cost. The assessment of budget implementation refers not only to the financial aspect but also to the extent to which the planned parameters relating to these characteristics of goods and services were achieved.

Target-based budgeting is an extension of outcome-oriented budgeting. During planning, the results that should be achieved through the provision of specific goods and services are also determined, as well as the consequences of these results for society as a whole or the economy as a whole. To illustrate the philosophy of this kind of budgeting, the following example can be given: the good provided to citizens is a form of active fight against unemployment, e.g., training or grants for starting one's own business, the result is the number of people who, using these goods, ceased to be unemployed in a period of 6 months, and finally - how the percentage of unemployed people changed. The last parameter is, of course, influenced by many factors other than the implementation of specific tasks by public authorities; however, the degree of aggregation of objectives relating to society as a whole or the economy as a whole does not allow detailed parameters to be measured.

However, public expenditure management reforms are not only aimed at improving the efficiency of their use and the effectiveness of public tasks. OECD documents underline that the areas that allow effective control of public spending are [2]:

- medium-term budgetary framework - setting out the main budgetary aggregates,
- prudent assumptions on the macroeconomic situation,
- making methods of regulating public resources more flexible,
- „top-down” budgeting techniques,
- budgetary transparency,
- focus on results,
- modern methods of financial management.

These points can be considered as key guidelines for modern public finance. At the same time, it should be stressed that they are closely linked. There can be no results-oriented

budgeting with public expenditure without a medium-term budget framework, no budgetary transparency without top-down budgeting methods (limiting possible expenditure increases due to too much focus on tasks and their results), etc. Reforms of expenditure management systems have in many cases been combined with the simultaneous implementation of accrual accounting at the state budget level, as also indicated by World Bank studies.

3. Polish experience with task-based budgeting

In Polish budgetary practice, the only experience with modern budgeting methods is related to the local government¹. They date back to 1994 when Krakow began reforming its method of expenditure planning. The next big cities were Lublin, Szczecin and Poznan. The implementation of target-based budgeting in the 1990s was made possible by programmes funded by USAID (the largest being the Local Government Partnership Program, which ended in 2000) and by the UK Know-How Fund.

In 2002-2003 an Institutional Development Programme (IDP) was carried out, addressed to public administration offices. This programme, alongside the nationwide Training Programme - was the Ministry of the Interior and Administration contribution to the government's Rural Activation Programme co-financed by the World Bank. IDP was conducted in 30 local government units and 3 voivodeship offices by consultants from The Małopolska School of Public Administration, Krakow University of Economics and the Canadian Urban Institute, in cooperation with the Ministry of the Interior and Administration. One of the projects implemented under PR1 was the implementation of targeted budgeting.

The target-based budget is defined as the financial plan of a gmina or other local government unit, prepared as follows: before the anticipated expenditures are recorded in accordance with the applicable budget classification, the administration prepares, in the form of budget tasks, detailed material and financial plans of the objectives to be implemented by the authorising bodies. However, this definition does not reflect the essence of performance

¹ The concept of "performance budget" is a financial plan of a commune or other local government unit, prepared in the following way: before the expected expenses are included in accordance with the applicable budget classification, the administration prepares detailed material and financial plans of plans to be implemented by the administrators in the form of budgetary tasks. The purpose of preparing the commune's budget in the schedule of tasks is to better link the expenses with the effects they are to serve. (...) The budget of the Goals and Effectiveness can therefore be defined as a financial plan of a commune or other local government unit - developed as follows: before the expenditure is included in accordance with the binding budget classification, the local government prepares programs - determines the declarations of results for them and prepares plans for the provision of services.

budgeting. At the same time, the concept of the objectives and performance budget was formulated, understood as the financial plan of a gmina or other local government unit - developed as follows: before expenditures are recorded according to the applicable budget classification, the local government prepares programmes - defines performance statements for them and develops service delivery plans [7]. This concept does not currently work in practice.

The Polish target-based budget is largely based on the decision made in the American city of Sunnyvale, which is called target and performance budgeting. The creators of this method of budgeting defined it as the process of determining the desired results for services, planning how to achieve these results, establishing outcome measures and evaluating, reporting and improving the results. The following results can be achieved through budgeting [4]:

- linking the allocation of funds to clear expectations,
- the establishment of procedures that make decisions on the allocation of resources transparent,
- the distribution of responsibilities for the implementation of specific tasks among specific persons within the local government structures, and the development of mechanisms and reports to monitor the performance of responsibilities in relation to expected results,
- developing mechanisms for evaluating results in order to control effectiveness,
- the allocation of funds for a specific task or programme.

Only such an understanding of targeted budgeting in local government reflects its essence and the purposefulness of its implementation. At the same time, it should be noted that this approach is the same as results-oriented budgeting.

4. The challenges of implementing target-based budgeting

Both foreign experience and postulates formulated during the introduction of target-based budgeting in Polish local government units indicate that the key elements constituting a modern targeted budgeting system are:

- 1) setting objectives and priorities of public authorities' activities - the structure of budget expenditure should be formed in connection with them. However, it should be remembered that the entire budget, regardless of its level - central or local - cannot be formed only according to objectives and priorities. Independently of these, certain

obligatory goods and services must be provided at a certain minimum level. Forming expenditures according to objectives and priority should be understood here as directing more expenditures to priority disciplines only after basic needs have been satisfied, i.e., obligatory tasks have been implemented at the minimum level (which results from the binding law),

- 2) the setting of responsibilities for actions to achieve general and specific objectives - a specific person must be responsible for the implementation of budgetary tasks or groups of related tasks. A certain degree of flexibility is required in the selection of specific ways of achieving objectives,
- 3) establishing a system of evaluation and assessment of the achieved results. This is one of the most difficult elements of targeted budgeting to apply in practice. As mentioned earlier, evaluation can be carried out on the basis of parameters related to goods or services and results. Non-achievement or partial achievement of main and specific objectives must be justified,
- 4) linking assessment results to responsibility and effort. Evaluation results through the motivation system should be linked to the activities of those responsible. At the same time, evaluation results should be used as one of the most important factors determining the allocation of resources.

The implementation of such a system is associated with a number of problems that often limit the pace of change. Among them, the most important will certainly be:

- 1) change of mentality of public administration employees. A considerable part of the public administration apparatus is used to the hitherto prevailing model of planning and evaluating the execution of the budget of public authorities, thus the introduction of elements of defining objectives for implementation of tasks, responsibility and making the amount of outlays dependent on the effectiveness of task implementation and efficiency of executed expenditures will require gradual implementation and convincing about the legitimacy of changes,
3. the need for a gradual implementation of the new public management philosophy in public sector organisations at all levels. A targeted budget cannot exist only at the level of public authorities, i.e., allocation of funds. It must be reflected in activities undertaken by entities implementing public tasks - to a large extent by budgetary units. Assessing the implementation of tasks by the state or local government at the highest level - ministries or offices of local government units - is pointless if similar principles are not applied to the

entities ultimately performing these tasks,

4. introduction of standards for social services. Measurement of quantity, quality and costs of providing social services will provide information for spatial comparison of these services. The provided information can be used to create cost and quality standards of services, primarily financed from the state budget, but also in the field of educational services,
5. unambiguous inclusion of the public budget - subjective or entity-based. As it was mentioned earlier, the division of the budget defined by the Polish law has to a large extent an object-oriented character. It seems justified that the budget classification should have only an objective character, because from the point of view of a citizen, for whom services and goods are provided, but also for a taxpayer who bears the burden of public levies, it is important what tasks are performed, and not what entity performs the task. At the same time, there may be a situation in which several entities perform the same public task, and thus, for reasons of budgetary transparency, such an approach seems correct,
6. development of a system for evaluation of public expenditures, allowing for the assessment of the adequacy and consistency of formulated budgetary objectives with strategic documents: effectiveness and efficiency of resource allocation; efficiency of expenditure execution,
7. target linkage between achieved results and inputs. The results of implementing public tasks should to a large extent influence the allocation of resources between tasks. The question arises, however, whether if the performance of a task is neither efficient nor effective, it is possible to completely resign from financing it. In the case of many tasks, such a possibility will not exist, but the task may be performed with the use of various instruments and entities, so in this respect, it will be possible to adjust. The complete abandonment or differentiation of inputs in relation to outputs can only be applied in the case of tasks carried out voluntarily by the state or local authority.

5. Conclusion

Target-based budgeting poses challenges for policymakers as well as for administrations and public task holders. So far, it has only been used by selected local government units that have used local partnership programmes, consultancies or tried to introduce target-based budgeting themselves. There are no statutory solutions specifying the

uniform form of the performance budget in all local and central government units. Work on such solutions is currently underway, as evidenced by such documents as the Convergence Programme. The government has begun work on a proposal to implement a target-based budget. The task-oriented structure of the budget is to be a tool supporting the process of principles of good management of public funds, serving greater transparency of public funds. The gradual creation of a targeted approach to expenditure from the state budget (or all public funds) should be linked to the preparation of a system of multi-annual budgetary planning in Poland. The introduction of multiannual budgetary planning will make it easier for government administration units to create programmes to implement given tasks and to determine the level of expenditures in the aforementioned programmes. It is expected, therefore, that in the coming years, despite the problems related to targeted budgeting, systemic changes will take place and the reform will increase the transparency of public authorities' budgets and link the outlays with the achieved results, which will ensure more effective use of public financial resources.

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