

**Teresa Lubińska, Alberto Lozano
Platonoff, Tomasz Strąk, Marcin
Będzieszak, M. Godek**

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**STUDIA I PRACE WYDZIAŁU NAUK EKONOMICZNYCH
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TERESA LUBIŃSKA
ALBERTO LOZANO PLATONOFF
TOMASZ STRĄK
MARCIN BĘDZIESZAK
M. GODEK

**PERFORMANCE BUDGET IN POLAND:
METHODOLOGICAL FOUNDATIONS**

Introduction

This article presents a review of the methodological foundations of performance budgeting in Poland. It contains a tentative proposal of a performance budget for “Science”.

The modern performance management of public spending is a challenge for the countries of Central and Eastern Europe. Public spending is becoming an especially strong instrument of socio-economic policy in the integrated European Union. Common currency narrows the range of instruments of the monetary and fiscal policy that includes percentage rates, exchange rates, taxes, expenditure, budget deficit and public debt. Public spending starts to play the major role. Taxes are being harmonized; the budget deficit and the public debt are subject to limitations imposed by the Maastricht Treaty¹. This necessitates

¹ Compare Lubińska, 2005, *Wyzwania dla polityki gospodarczej*, Polityka Gospodarcza, no. 11, SGH, Warszawa 2005.

active management of public finance. The implementation of the performance budget is regarded as a very important objective of the public finance reform².

Basic Characteristics of the Performance and Traditional Budgets

In the authors' opinion, the essence of performance budgeting consists in introducing the management of public funds by objectives that are properly specified and arranged in a hierarchy in order to achieve specific results measured using a determined system of measures.

In the performance budget it is possible to decide which tasks are most important for the implementation of specific objectives, and its measures show to what extent they have been achieved. The following table presents major differences between the traditional budget and the performance budget.

Table 1

Basic characteristics of the traditional and performance budgets

Traditional Budget	Performance Budget
Spending Tool	Governance Tool
Difficult relationship between expenditure and the government's objectives and tasks	Makes it possible to establish a relationship between expenditure and objectives and tasks, thanks to which expenditure can be arranged functionally by tasks
Difficult arrangement of expenditure in hierarchy	Hierarchy of expenditure and instruments according to their importance for the government's tasks
Department-based approach	Facilitates cooperation between government departments and in other public sector institutions
No multi-year projection of expenditure on tasks	Long-term approach – a three-year projection of expenditure for tasks
No relationship between expenditure and effectiveness and efficiency categories	Management of expenditure towards improving effectiveness and efficiency through an evaluation system
No integration of expenditure	Global approach to public sector expenditure
No clear information about departmental spending policy – low transparency	Clear information about budget expenditure classified by tasks makes it possible to communicate with the public
Parliamentary discussion focusing on single expenditure items	Makes it possible to conduct a parliamentary technical discussion on the government's priority tasks

² Convergence programme 2007.

The Concept and Methodological Foundations of the Polish Performance Budget

The Scope and Structure of the Performance Budget

Implemented performance budgeting systems have to be tailored to the country's general development level (economic, social, public administration development)³.

Public finance systems vary significantly from country to country. Those differences are often very serious and they result from the long-standing evolution of those systems and from considerable differences between the systems of law and the styles of state governance, e.g. between countries representing the Anglo-Saxon model and the continental model, between a system in which regions are highly autonomous and the centralized system.

The performance budgeting system proposed by the Authors is based on:

1. The analysis of global achievements and failures in performance budgeting⁴.
2. Polish local governments' performance budget experience⁵.
3. Private sector's experience in performance management.
4. Audit and accounting experience.
5. Experience in managing EU funds.
6. Cooperation with the World Bank and experts on performance budgeting.
7. Lessons from the following pilot projects:
 - interdepartmental High Technology Program developed in the Interdepartmental Team on the Development of High-Tech Sectors;
 - the Ministry of Science and Higher Education – sections: “Science” and “Higher Education”;
 - initial version of the performance budget – the Ministry of National Education and the Ministry of Labor and Social Policy.

³ The use of the performance budget in its most perfect and developed form, i.e. the New Zealand model, is not possible in countries whose development is insufficient for that. Despite big interest in the New Zealand system involving a contract-based management style, no other country has used that solution in full: only selected solutions have been implemented (e.g. Iceland, Singapore).

⁴ Country reports prepared by the State Performance Budget Department in the Chancellery of the Prime Minister.

⁵ S. Owsiak (ed.), *Budżet władz lokalnych*, Polskie Wydawnictwo Ekonomiczne, Warszawa 2002.

Performance budgeting will cover plans of income and expenditure as well as revenue and outgoings of:

- 1) public authorities including state administration bodies, inspection and law protection authorities;
- 2) courts and tribunals;
- 3) state earmarked funds;
- 4) governmental agencies.

The performance budget will cover both flexible and fixed expenditure⁶. The fact of regarding a given type of expenditure as fixed expenditure is not the decisive factor that prevents it from being included in the performance budget. Therefore, the treatment of, for example, expenditure on national defense as fixed expenditure only limits the government's flexibility at the strategic priority selection level, but in no way does it limit the possibility of making the spending of those funds by the Minister of National Defense more effective and efficient. Expenditure incurred by those institutions whose income and expenditure is included in the budget law by the Minister of Finance (e.g.: Chancellery of the Sejm, Chancellery of the Senate, Chancellery of the President of the Republic of Poland, Supreme Court, Constitutional Tribunal, National Council of the Judiciary, civilian and administrative courts, the Supreme Chamber of Control) can be referred to as fixed only from the government's point of view. The parliament has quite a lot of freedom in shaping its amount. Besides, fixed expenditure, i.e. expenditure that is determined by law for a period of one budget year, may turn out to be quite flexible in a period of several years.

Public expenditure in the performance budget will be classified by **sections, tasks** and **subtasks**. Sections will be defined using COFOG

⁶ Here it is important to stress that expenditure referred to as fixed can be classified as follows: 1) expenditure that cannot be defined in a performance format, e.g. contributions to the EU budget, soldiers' and officials' retirement and disability benefits; 2) expenditure that cannot be defined in a performance format in the state budget but the effectiveness, efficiency or amount of which can be influenced through the introduction of the performance budget in the whole public sector, e.g. subventions for local governments, subsidies for the Social Security Fund; 3) expenditure that is already subject to performance management (public debt service costs) – representing approx. 18% of fixed expenditure; 4) expenditure that can be defined in the performance format in the state budget, e.g. expenditure on national defense.

(Classification of Functions of Government)⁷. Budget tasks will include expenditure that will be functionally consistent (COFOG subgroup). Thus, Polish functional classification will be used in addition to the performance classification, there being no expectation that COFOG will be fully consistent with the Polish functional classification. The clear and unambiguous relationship between COFOG and the Polish functional classification will be achieved by specifying the COFOG subgroups that a particular budget section is composed of.

The performance budgeting methodology provides for a switch from the current budget classification to the performance classification. The annual performance budget, the plans of public sector entities and supplementary documents such as multi-year expenditure projections should be included in the same performance classification. This guarantees adherence to the principle of transparent public spending. The principle of transparency is a starting point for following the principles of effectiveness and efficiency as typical of performance budgeting. As J. Głuchowski has stated, it is not possible to conduct contemporary budget policy without challenging the traditional budget system in which the only thing considered every year is the need to appropriately increase or reduce funds⁸.

The tables below illustrate a comprehensive approach to the proposed performance structure of the state budget. There is a department or entity assigned to each section, task and subtask as the department or entity responsible for its implementation. There are also other cooperating entities assigned to it. Cooperation and the coordination of various departments' activities will take place first of all at the subtask level in those cases in which several departments are responsible for the final result obtained by the citizen.

⁷ The classifications of functions usually correspond with functional categories represented by the E. Moover's Commission's Classification. Compare. J.M. Gaudemet, J. Molinier, *Finanse publiczne*, PWE, Warszawa 2000, p. 55 and 216.

⁸ Compare J. Głuchowski, *Budżet i procedura budżetowa*, Wydawnictwo Sejmowe, Warszawa 2001, p. 76.

Table 2

Performance budget: the financial part

Task	Expenditure		Expenditure Projection	
	2007 Planned Execution	2008	2009	2010
Section...				
Task 1				
Subtask 1.1.				
Subtask 1.n.				
Task n				
.....				
Task: Establishment and coordination of policy				
Subtask n.1.				
Subtask n.2.				

Table 3

Performance budget: the task part

Task	Objective/ operational goal	Mea- sure	2007 Planned Execution	2008	2009	2010	Imple- menting Entity
Section...							
Task 1							
Subtask 1.1.							
Subtask 1.n.							
Task n							
.....							
Task Establishment and coordination of po- licy							
Subtask n.1.							
Subtask n.2.							

Budget tasks will involve both current expenditure and capital expenditure.

A budget task will include:

- 1) assessment of the existing situation;
- 2) quantified task objectives the realization of which will make it possible to achieve strategic objectives, along with measures;
- 3) subtasks to be implemented as part of the task;
- 4) description of activities to be undertaken as part of individual subtasks;
- 5) subtask objectives and measures;
- 6) planned expenditure in the functional order and according to basic economic categories;
- 7) annual limits of expenditure and committed public funds;
- 8) name of person responsible for task implementation.

Budget **subtasks** will involve groups of expenditure that will be incurred in order to obtain consistent products and thereby realize operational objectives.

State budget expenditure at the task level will be grouped into the following:

- 1) subsidies and subventions,
- 2) performances to the benefit of natural persons,
- 3) personnel expenditure (personal and impersonal remuneration and contributions calculated on it),
- 4) expenditure on State Treasury debt service,
- 5) other current expenditure,
- 6) property related expenditure.

Resource (human and material) commitment costs necessary for the performance of a specific task, amounts of money transferred to end users as part of that task as well as property-related expenditure can be allocated directly to budget tasks.

While allocating direct expenditure to individual tasks it is important to bear the essentiality principle in mind. It is not advisable to strive to allocate all the costs of implementing a given task to that task but only those costs that will be regarded as essential because of their amount or type. For example, the allocation of paper or electric energy consumption costs to individual tasks may turn out to be unprofitable because it will be necessary to extend the record system for those costs and because they are small.

Indirect expenditure connected with the functioning of the entity's managers, HR department, audit, etc. and that connected with the maintenance of the entity's real estate and equipment and its protection may be allocated

to tasks only in a simplified way using various allocation formulas. Here it is possible to use simple allocation formulas, e.g. the number of employees assigned to a given task, or a more complex settlement system such as activity-based costing (ABC). Another solution consists in grouping those costs into separate subtasks within individual tasks (if a given entity implements a single task) or into separate tasks (if the entity's subtasks represent a single section)⁹.

In order to implement budget tasks, it will be necessary for administrators to determine the plans of activities. Those plans will present expenditure according to budget classification paragraphs as well as activities necessary for the achievement of the task objective. The following classification of activities is proposed:

1. Activities relating to the shaping of policy.
2. Activities relating to the coordination, supervision and monitoring of task performance.
3. Activities relating to the management of tasks performed by an entity¹⁰.
4. Activities relating to the provision of administrative services¹¹.
5. Activities relating to the provision of social services.
6. Activities relating to the provision of technical services.
7. Support activities¹².

Integration of Strategic Planning with Operational Programming and the Annual State Budget

The performance budgeting system presented in this article is based on the following planning documents: **the principles of multi-year performance planning, three-year performance projection of expenditure, the annual**

⁹ The issues of allocating costs to budget tasks are discussed for example in: *Managing Public Expenditure. A reference book for transition countries*, ed. R. Allen and Daniel Tommasi, OECD 2001, p. 310–313.

¹⁰ Compare: J. Płoskonka, *Zarządzanie przez rezultaty jako metoda wykonywania zadań publicznych*, Służba Cywilna 2005, no. 12, p. 22.

¹¹ W. Wańkowicz, *Wskaźniki realizacji usług publicznych*, Program Rozwoju Instytucjonalnego, Kraków 2004, p. 11.

¹² The proposed system is based on the results of the functional review of the Latvian administration, the results of the Institutional Development Program, on the classification of public administration functions proposed by J. Płoskonka.

state budget and plans of activities. The proposed arrangement of planning documents is presented in the figure below.

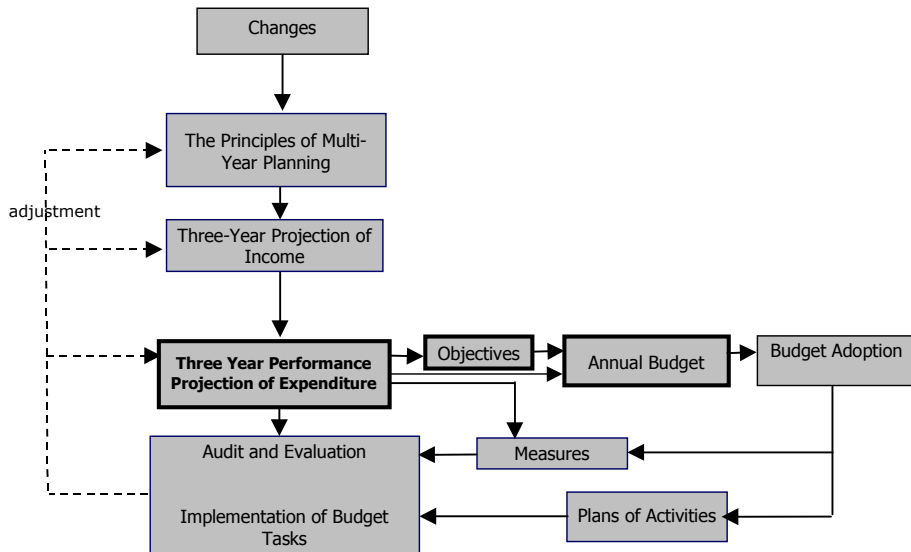


Fig. 1. The arrangement of planning documents and interrelations between them

The multi-year planning process will result in a three-year performance projection of government expenditure, which will include budget tasks specifying the way of realizing individual strategic objectives, measures and the necessary expenditure.

It is anticipated that in justified cases certain budget tasks will last for longer than three years, e.g. operational programs co-financed from the EU budget and programs co-financed from foreign non-returnable resources other than the EU budget, for example the EEA Financial Mechanism, the Norwegian Mechanism, the Swiss Mechanism.

In order to implement the budget law, people responsible for budget tasks will develop annual plans of activities in which they will specify activities to be undertaken in order to implement the planned tasks.

Task performance will be evaluated both at the end of the year and during the budget year. Progress in the implementation of annual and multi-year objectives will be evaluated on the basis of output, outcome and impact indicators.

Effectiveness and Efficiency Measures in the Performance Budget

From the point of view of improving the effectiveness and efficiency of operations of the state administration, one of the most important moves will consist in defining the objectives of public spending and their measures. Measures should be used for evaluating task and subtask performance primarily in terms of effectiveness and efficiency.

Effectiveness measures measure the degree of achievement of intended objectives – they can be used at all budget classification levels.

Efficiency measures measure the relationship between inputs and results, outcomes. They can be used at the task and subtask level. Due to a big number of external independent variables, the measurement of efficiency at the section level requires special caution. In accordance with the commonly used OECD and EU methodology, measures can also be divided into three categories, depending on the level of generality of the purposes they serve: impact; outcome and output¹³.

Table 4

Effectiveness and efficiency measures at various objective detail levels

Measures	Effectiveness	Efficiency
Impact	Current/planned impact	Impact in relation to costs
Outcome	Current/planned outcome	Outcome compared with the cost of producing that outcome
Output	Current/planned output	Output compared with the cost of producing that output

¹³ OECD proposes division into the following measures: output measure, intermediate result measure and final result measure, whereas nomenclature proposed by the EU is similar to that used in this paper.

Impact measures are the most important measures and their construction requires special caution. They measure long-term consequences of task implementation. They can measure direct consequences of task implementation that emerge after a longer period of time, but they can also measure the impact of a given task on groups other than the target group. Impact measures sometimes refer to values that represent the task implementation result only to some extent (results are influenced also by other, external, factors). Impact measures will be defined only as effectiveness measures. Examples of impact measures: unemployment rate, exports of high-tech goods as % of GDP, the number of committed offences, the share of 20–24-year-olds with secondary education in the total population.

Outcome measures measure the results of activities at the subtask level. They measure the direct consequences of activities. Outcome measures may be defined as:

- **efficiency measures** – they are financial measures that reflect the efficiency of the implementation of individual tasks. They can show the outcome such as a profit obtained as a result of performing a given task: (e.g. lower treatment cost resulting from pro-health activities) or the unit costs of task functioning (costs connected with the service of a system of assistance for children and young people from poor families / the number of children and young people who received such assistance);
- **effectiveness measures** – they measure the degree of realization of task objectives. They show whether the administration's outputs contribute to the achievement of the objectives of a given task, for example: reduced driving time as a result of road repairs; improved detectability of crime as a result of police computerization, shorter time limits for the adjudication of cases by commercial courts as a result of simplifying the procedure.

Output measures will reflect the performance of a given task or subtask in a short term and they will show specific goods and services produced by the public sector. They will measure the direct consequence of activities as part of the implementation of individual tasks/subtasks. Output measures can measure the following:

- **efficiency** – these are financial measures that reflect task performance or task implementation progress from a financial point of view. Efficiency measures are presented as a ratio of the amount/degree of incurred expenditure to the

- amount of public services or goods obtained as a result of implementing a given task, for example: the cost of building one kilometer of a highway,
- **effectiveness** – these are physical measures that rely on the measurement of the quantity or quality of produced goods or services. They show task implementation progress or degree and the technical quality or the process quality, i.e. they illustrate phenomena that are of key importance from the point of view of the usefulness of a given activity for the direct customer of public services, for example: the number of completed transplantations in relation to the planned number of transplantations, the number of patents the implementation of which has been financed / the planned number of patents the implementation of which was planned to be financed.

In the performance budget, measures will be defined at all budget classification levels. A flexible approach as to the types of measures used is to be adopted at the task and subtask levels. It is recommended that first of all outcome or impact measures that measure the effectiveness of a given task or subtask be formulated. The selection of a given type of measure will, however, always depend on the specificity of a given task or subtask.

Summary

- ♦ Performance budgeting implementation is a multi-year project.

Performance budgeting implementation work will be carried out between 2008 and 2013. It will cover all the performance budgeting stages, i.e.: planning, budget implementation, control and audit. It will be financed from EU funds. The following amounts of expenditure are planned for the years 2007–2013 in connection with the process of implementing performance budgeting in the Polish public sector: EUR 64.3 million from the “Human Capital” Operational Program Priority V “Good Governance” and from HC OP technical assistance and EUR 10 million from the “Innovative Economy” Operational Program Priority VII “Building and Development of an Information Society”.

Table 5

Task 2, subtasks, objectives, measures and expenditure (in PLN '000) for Section 28.
Science

Details	Objective	Measure	Expenditure for 2006 Planned Execution	Plan for 2007
Task 2. Intensification of scientific research that serves practical purposes	To increase the impact of scientific research on the country's socio-economic development	Share of Business Expenditure on Research and Development in GDP (BERD)	288,369	394,715
		Number of patent applications submitted to EPO, USPTO, JPO		
Subtask 2.1. Support for research fields preferred for socio-economic development	To increase the number of scientific research applications in the preferred fields of economic practice	Share of funds earmarked for development projects in budget expenditure on science	58,115	92,725
		Number of specific-purpose projects generated as a result of the implementation of development projects		
Subtask 2.2. Support for applied research and development work for entrepreneurs	To increase the possibility of use of R + D work results by entrepreneurs	Increase in the revenue of enterprises participating in the implementation of specific-purpose and development projects	227,954	289,606
		Number of jobs created as a result of implementing the Ministry's specific-purpose projects		
		Enterprise share in financing scientific research conducted within the framework of the Ministry's projects		
		Number of patent applications submitted by Polish residents to EPO, USPTO, JPO resulting from the implementation of projects financed by the Ministry		
Subtask 2.3. Development of business support institutions facilitating cooperation between science and economy, and scientific research marketing	To arouse more interest in scientific research among entrepreneurs and promote innovative projects	Number of enterprises applying for participation in specific-purpose projects	2,300	12,384
Subtask 2.4. Technological initiative	To make the use of research and development work in Polish enterprises more intensive and to intensify research to improve competitiveness of the economy	Annual increase in the private sector's expenditure on R+D activities (in billions PLN)		
		Number of patent applications submitted to EPO, USPTO, JPO as a result of the project		

Departure from the traditional budget and the full implementation of performance budgeting in accordance with the new performance classification in all the government sub-sector units is planned to take place between 2011 and 2012. On 8 December 2006, the Law on Public Finance was amended, and pursuant to art. 124 the budget law should be accompanied by a **justification**

that contains in particular: “A list of tasks, within the planned amounts of expenditure, along with the description of task objectives, performance measures and anticipated multi-year financial costs of their implementation.” At the same time, pursuant to art. 158 section 3, the budget law implementation report should present information about task performance within the planned amounts of expenditure along with the description of task objectives, performance measures and anticipated multi-year financial costs of their implementation as well as expenditure on their implementation.

Table 6

Traditional budget vs. performance budget on the example of “Science” (in PLN ‘000)

Traditional Budget		Performance Budget	
First classification level			
Section 28. Science	3,755,588	Section: Science	3,755,588
Second classification level			
Apportionment 730. Science	3,688,583	Task 1. Development of Polish science	2,867,203
Apportionment 750. Public Administration	38,756	Task 2. Intensification of scientific research that serves practical purposes	394,715
Apportionment 752. National Defense	15	Task 3. Infrastructure of Polish science	388,764
Apportionment 921. Culture and Protection of National Heritage	28,234	Task 4. Dissemination and promotion of science	82,677
		Task 5. Establishment and coordination of policy	22,229

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