

# **BUDGETARY PERFORMANCE IN THE CASE OF LOCAL PUBLIC AUTHORITIES, A TARGET TO REACH, BUT MORE THAN THAT, A MUST**

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## **Abstract:**

*Starting from the motto “global planning, local action”, the important role that is attributed to budgetary performance is given by the increasing budgetary constraints that public budget experiences, including the local budgets, by the insufficient financial resources needed for accomplishing development programs, starting from the local public administration level and reaching the integrative level of the European Union. Improving the performance at local level contributes to reaching objectives by the upper administrative staff.*

**Keywords:** *local budget, budgetary performance, indicators, performance measurement*

**Jel Classification:** H70, H72

## **1. Introduction**

Local public finances and their management permanently constitute important preoccupations for financial organisms, and the identification of modalities to improve their management is always current, due to the role and their importance in making local public authorities functional and in increasing the quality life of citizen.

The role and importance of local budgets increase along with the processes of decentralization and, more than that, they accelerate. The greater a country is decentralized, the more important is the decentralization role and efficiency.

Budgetary performance constitutes an important problem in the management of public expenditures for years. It represents the capacity of an administration to obtain resources in an economic manner and to use these resources in an efficient manner with a view to getting the desired result.

The importance of budgetary performance, the finding of most optimum solutions to use resources and through this, the gaining of citizen’s trust in public policies are underlined in the most recent document of the European Commission on the performance framework for the EU budget belonging to the multiannual financial exercise 2021-2027 (Commission Communication, 2021).

## **2. Introducing Budgeting based on Performance, a Must**

Studies in the field underline the fact that, the adoption of a coherent system to measure performance needs the clear defining of what we quantify, systems measuring the manner in which we use the performance measuring systems. The need of a system to measure performance may be justified, among others, by the fact that decisions on resource earmarking must be taken on clear founded bases, by using the so-called system of performance management.

The planning and budgeting capacity at local level and the fact that local structures do not have the same instruments as the national government may lead to obstacles in financing and managing local public funds under performance conditions and in such a manner as to ensure the reaching of sustainable development objectives. Attaining performance in managing budgetary funds, correlated with sustainable development strategies represents an extremely important and actual aspect local public authorities confront themselves with as well.

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The recent pandemic crisis has demonstrated how important the sustainability of public finances is. Public finance sustainability is not only a circumstantial preoccupation. This affects equity between generations and illustrates principles which apply any moment to all governments and to local public authorities.

### 3. Theoretical and Practical Approaches on Budgetary Performance

Transformation in the public sector generated the necessity of a new public management (NMP), a concept that led to the emergence of a stream of reforms in the management of public services.

Improving economicity, efficiency and efficacy of public expenditures represents one of the NMP essential objectives and in order to reach this objective, structural changes occurred in the management of public finances. Out of these, the elaboration of budget on basis of programs, the passing from cash accounting to commitment accounting, the implementation of informational systems or the passing from conformity audit to performance audit have been adopted in the national legislation and have been implemented in the public administration in Romania (Hood, 1991).

The new public management implies additional attention on resource management, which includes, of course, not only cost reduction but also a special concentration on programs by which strategic objectives are reached.

The passing from traditional, linear budgeting, used as an instrument of resource earmarking and expenditure control, to budgeting based on performance was implemented on stages in the course of time, being initiated starting with the 50's of last century by developed States (pioneers in implementing this system being the United States of America at the Hoover Commission recommendation).

Further on, the majority of the European States put the condition that any new public policy be joined by a budgetary engagement that should define the resources it was going to be financed from. In this context, the introduction of budgeting based on performance led to fulfilling strategic objectives by a better control over budgetary expenditures.

According to the Guide drawn by the Unit of Public Policies from the Ministry of Internal Affairs in Romania, in Table no.1 we find a synthesis of advantages and disadvantages of linear budgeting vs budgeting based on performance in the local public administration:

**Table no.1: Linear budgeting vs budgeting based on performance**

	<b>Advantages</b>	<b>Disadvantages</b>
<b><i>Linear budgeting</i></b>	- facilitates financial control; - constitutes an adequate basis of earmarking when resources are limited.	- rigid, incapable to answer fast to some priorities in change or by creating some new public services; - difficult result assessment, not existing a direct relation between “what must be purchased” and “what must be accomplished”; - difficult to evaluate the cost-efficacy of reached objectives.

	<b>Advantages</b>	<b>Disadvantages</b>
<b><i>Budgeting based on performance</i></b>	<ul style="list-style-type: none"> <li>- awareness of targets to be reached;</li> <li>- a greater flexibility in reallocating between articles and activities/programs;</li> <li>- public administration becomes more conscious of costs needed in order to get results;</li> <li>- it transfers the decision of resource earmarking to inferior levels.</li> </ul>	<ul style="list-style-type: none"> <li>- costs of existent programs, together with some which can be newly introduced, tend to exceed the level of collecting revenues;</li> <li>- insufficient control of processes in the interior of local administration.</li> </ul>

*Source: The Public Policy Unit – The Ministry of Internal Affairs, the Guide of Public Administration Institutions for the Improvement of the Process of Public Policies at Local Level, Bucharest, 2011*

Budgeting based on performance requires a complex process, whose initiation must have as base some principles, which, according to Schick’s approach, presented in Table no. 2, suppose that an authority must proceed as follows:

**Table no.2: Allen Schick’s “First” Approach on Budget**

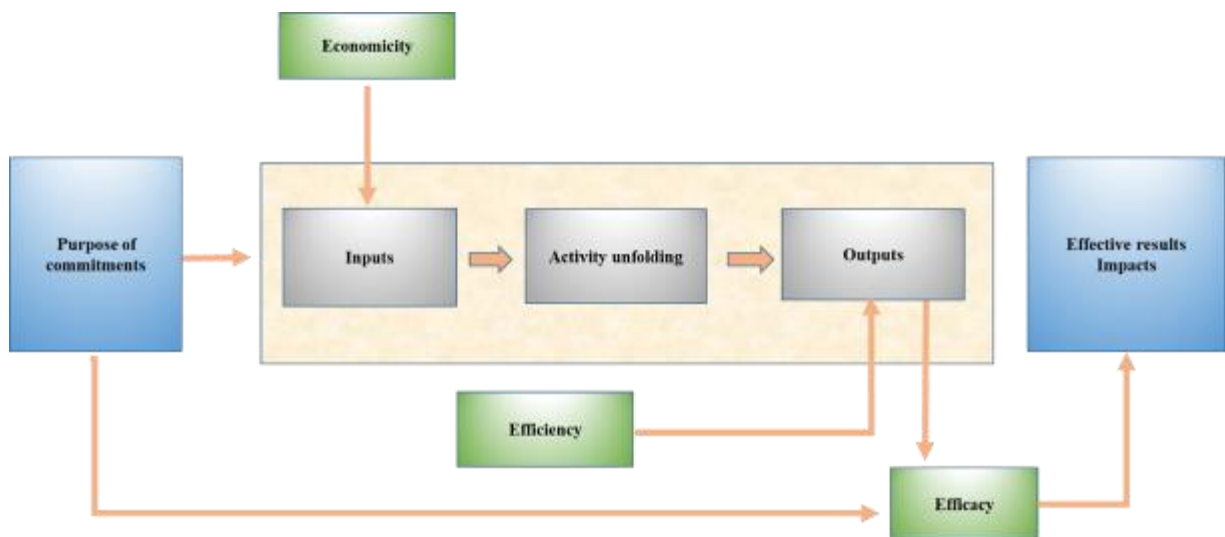
<b>First</b>	<b>Only after</b>
The creation of an environment to support and ask for performance	The introducing of budgeting based on results or performance
Controlling input	Controlling output
Cash accounting	Commitment accounting
External control performing	Internal control introduction
Internal control introduction	Managerial roles introduction
Safe accounting system operation	Introducing an integrated financial managing system
Budget drawing for the work to be performed	Budget drawing with a view to results to be obtained
Ensuring on the existence of an actual financial audit	The passing to performance audit
Adopting and implementing some predictable budgets	Ensuring that managers use trusted resources in an efficient manner

*Source: Allen Schick, 1998*

Managing funds of local budgets under economicity, efficiency and efficacy conditions represents, in essence, the using of financial resources under performance conditions. This approach is based directly on the obtained performance, the accent being laid on *resources, performance, results and impacts*. At the same time, measuring performance is possible only when there are criteria adapted to measure the quantity, quality and costs of *resources, performance, results and impacts*.

Whether it is an entity (a local public authority), a program, a project, a process or an activity, measuring performance involves a logical and causal cycle, as shown in Fig.no. 1:

**Fig. no.1: The input/output model of the 3E interactions**



*Source: personal representation based on ISSAI 3000*

Measuring financial performances in the local public administration in Romania, using the financial indicators, made the object of several approaches from the part of some professional NGO associations, exemplifying The Guide of Financial Performance Indicators drawn by the Federation of Local Authorities in Romania (FALR) in 2003, respectively the Brochure of Financial Economic Indicators – managerial analysis instrument of the local public administration drawn by the Association of Chief Economic Officers and Accountants in Romanian Counties (ADECJR) in 2004. Similarly, from a legal point of view, through the Common Order of the Ministry of the Administration and Internal Affairs and the Ministry of Public Finances in 2010, calculation methodologies have been approved, both on the calculation of the degree of personal income in the territorial-administrative units, and on the establishing of indicators regarding the execution of local budgets (Moldovan, 2014).

We appreciate as opportune the defining of these financial indicators, applicable within the territorial-administrative units in Romania, used in the measuring of financial performance, the one defined through legal framework being mandatory to report. All the same, there can be observed some shortcomings, which, from the perspective of measuring budgetary performance, may be structured on two directions:

- ◆ Existent financial indicators are of nature to photograph the existent situation at a certain moment (a part of the indicators being determined quarterly, and another part annually, in the course of the current financial exercise), but without an existing reference system (which would represent a critical level to avoid or optimum to touch for each indicator), without drawing analyses on how the financial indicators evolved in comparison with the previous financial exercise/exercises, which would be the causes that led to unsuccessful accomplishment and the eventual propositions of measures to improve, which should lead to reaching objectives, all these stated shortcomings are not likely to constitute a really useful instrument in the measuring of financial performance;

- ◆ The lack of some non-financial indicators (qualitative) cannot lead to an actual public budget based on performance, the accent being placed only on financial indicators (quantitative). The introduction of non-financial indicators is a must to draw, because the way it has already been scientifically demonstrated by approaching a “balanced dashboard”, the improvement of an entity’s performances is accomplished by cost reduction (using financial indicators) and by improving the process-quality or by improving the performed services (using non-financial indicators).

For a better and more comprising understanding, we consider it useful to present some practical ways to approach local budget performance, including at international level.

Thus, in the volume *Performance Budgeting for State and Local Government*, writers Kelly and Rivenbark offer an enhancing theoretical and practical framework for taking budget decisions based on the efficiency and efficacy of performing public services, pursuing the measure performance by surveys that satisfy citizens, encouraging, therefore, the involvement of citizens in the management of performance (Kelly and Rivenbark, 2011).

The work *The Analysis of Local Budgets and their Importance in the Fight against the Economic Crises Effects*, approaches the evaluation of financial and budgetary performances of administrations, both local and central. In this work, Pelinescu & all deal with the capacity of the central and local administration to control expenditures and to ensure resources to cover them given the economic crisis. According to these, it is essential to accomplish financial sustainability of the public budget and the autonomy of the local community based on budget equilibrium, so that local budget deficits should not generalize (Pelinescu et al., 2010).

Melkers and Willoughby made research on the effects of data measuring performance on taking budgetary decisions, on communication and on other governmental operations of local governments in USA, showing, in the study *Models of Performance-Measurement Use in Local Governments: Understanding Budgeting, Communication, and Lasting Effects*, that the use of performance measuring by local departments is omnipresent, as well as the fact that there are subtle distinctions in using performance measuring for budgetary purposes and processes within and in-between the governing levels within USA (Melkers and Willoughby, 2005).

Another work, *Strategic Performance Management: A Balanced Approach to Performance Management Issues in Local Government*, deals with budgetary performance from the perspective of management in the local administration, showing that the accent in the local governing system was laid on financial performance and, to a lesser extent, on the manner in which the community perceives performance (Kloot and Martin, 2000).

The accent on local public performance is also exposed in the work *Moduri de abordare a performanței în administrația publică locală din România (Ways of Approaching Performance within the Local Public Administration in Romania)*, in which writer Cazacu underlines that performance analysis in the local public administration must be accomplished in terms of general indicators, defined on basis of responsibilities established by the legal framework for the local public administration authorities, but, more especially, by the way in which the executive and deliberative authorities from the territorial-administrative unit fulfil their strategical objective and electoral assumptions (Cazacu, 2021).

#### **4. Budgetary Performance Measuring Conditions**

It is unanimously accepted that measuring the budgetary performance supposes the using in parallel of some financial indicators (quantitative) and of some non-financial indicators (qualitative). However, it is difficult to standardize a valid general model, due to the fact that the typology of defining and using financial and non-financial indicators depends, on one hand, on a series of internal factors such as the applicable legal framework, on the type of existent budget (unitary or federal), on the politics of every State concerning the measure in which it intervenes in economic and social life, on the dimension of budgets, on the decentralization degree etc., and on the other hand, on a series of external factors such as affiliation to super-State authorities (e.g. European Union at the level of Europe, because the super-State authority may influence the budgetary policy ruled by Member States), it may depend on the periods of economic crisis, and more recently on the pandemics.

All used performance indicators must fulfill certain quality criteria, according to requests formulated by Peter Drucker. Thus, indicators must be SMART, respectively, specific (specific objectives should be defined as precisely as possible), measurable (to be quantifiable), applicable (performant), relevant (to help to fulfilling objectives in order to be able to evaluate performance) and in time (pursuing target deadlines in order to be accomplished) (Drucker, 2001).

## 5. Conclusions

Reaching high budgetary performance at the local public authorities level surely is a target, but more than this, it is a must. Local decentralization has supposed the transfer of some more and more activities from the sphere of central authorities to the local ones.

The corresponding financing of these activities, given the conditions of some more and more acute budgetary constraints, makes local public fund management need the application of an adequate performance framework. Building GLDPs, performance centred, will lead to a 3E fund management having in view both necessities that may be anticipated, but also more dense challenges (such as the current ones related to the pandemics crisis) which suppose rapid and significative budget adjustments.

Similarly, in Romania, in the actual context of the local public administration reform, of the decentralization process and local autonomy strengthening and, implicitly, financial one, performance measuring represents one of the most important aspects. Creating a modern and efficient system of public administration is considered a need with a view to understanding the local public administration reform, so that it aligns to the European Union standards (The European Commission, 2020).

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