DEVELOPMENT AND EFFICIENCY OF BUDGET OF PUBLIC INSTITUTIONS BY THE METHOD BASED ON PERFORMANCE

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Abstract:

In Romania, public sector performance is a concept on which it has been written very little and rarely applied in practice. The situation is not the same in developed countries economically to where we focus our attention, regarded as models for our country.

Internationally, since the early 70s of the last century there were initiated processes of modernization and reorganization of public institutions in different countries. The society required a higher efficiency of the services provided by it, a better use of public services and also an effective bureaucratic model. It can be said that only in this context, government institutions can gain strength, consistency and can become more reliable.

Flexibility, decentralization, creativity, self-management and management contract, all used as measurement tools are the basic features of a managerial reforms that focus on results.

Determining the results in the public sector and implementing a system of financial and nonfinancial performance measurement requires a clear definition of the objectives and goals of each organization and component institution.

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JEL Classification: G30, G31, H70

1. Introduction

Performance measurement – theoretical approaches

Performance measurement is a systematic process that allows evaluating the efficiency and effectiveness of an organization or program. Performance measurement can provide real information (quantitative and qualitative characteristics) that helps managers and customers (in this case citizens) to determine if the expected results are according to expectations.

Therefore, performance measurement process is a sequential action taken inside or outside of the public institution to establish performance standards, to evaluate performance and to make some corrections where necessary. The process involves selecting, defining and applying a set of indicators that quantify the efficiency and effectiveness of the institution, program or service analyzed, based on inputs, outputs and outcomes.

Public administration can be seen as an institution that influences inputs, produces outputs and has a significant impact on the results of state policies (Bilouseac, I., 2013, p.23-32). Operation of public administration will therefore have a significant influence on the efficiency of public spending. Empirical researches indicate a positive impact of modern and efficient public administrations on productivity and economic growth. There is evidence according to which the EU Member States have reformed public administrations to achieve growth efficiencies. Based on information on reforms to increase efficiency of Member States, most national reform initiatives in the last five years address the following issues:

a) *Orientation towards performance*: there is evidence that in many EU countries there is a larger focus on medium-term budget planning. In addition, many countries have adopted an approach oriented towards obtaining the results set in the planning budget. Finally, a coherent analysis of all budgetary resources could prove a significant tool for improving the efficiency and effectiveness of the public sector;

b) *Organizational issues*: in many Member States, the roles and responsibilities of the various government departments have been revised to simplify the organization of

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public administration. The trend towards outsourcing of public sector recorded an impact on management practices in the public administration;

c) *Human resource management*: reorganizing the public administration was in many cases accompanied by reforms in the management of human resources, including recruitment flexibility, flexible job opportunities, performance-based pay systems and performance evaluation systems;

d) *Use of tools specific to information technology*: many countries use these technologies to reduce costs and increase the quality of services offered to people and businesses by creating opportunities for interaction with the public through the Internet, and by optimizing internal processes by extended use of information technologies. However, experience shows that determining optimal reforms should be based on good understanding of the dynamics of the national system of public administration.

The concept of improving the quality of public services and performances of public service providers are often judged by several courts. However, consumers, taxpayers, employees, etc. use different criteria for analysis regarding the standard of public services. Therefore, in the literature there is not a widely accepted set of criteria and generally valuable in evaluating the performances of public services providers. This does not exclude the existence of more tangible factors such as the *amount of output* (examples of this are multiple: the number of roads built, the number of operations performed in hospitals, etc .; quality of output (speed and consistency of service, courtesy of employees), *efficiency* (the ratio between costs and final results), *equity* (balanced distribution of costs and benefits among different groups), *effectiveness* (cost per unit of outcome); *customer satisfaction* (which may be an aggregate measure for the above, depending on the questions asked to those who benefit from public services).

Boyne G., (2003, p. 767-783) identifies the following *key dimensions* of performance in providing public service:

The first dimension is that of **resources**. The idea according to which more resources will lead to better results is probably the simplest theory of increasing the quality of public services. A more general version suggests that the high level of public spending is a sufficient condition to increase the quality because it should lead to a greater quantity or quality of public services. A narrower version suggests that a growing number of funds are a necessary but not sufficient: resources must be managed effectively to achieve possible maximum of benefits. In these cases, the basic assumption is that the relationship between resources and increase service quality is positive.

The second is the one of **rules**. Public service providers are not free to choose their own processes and strategies but must act within the political constraints set by political authorities. The simplest form of regulation is the laws that impose obligations or prohibit certain activities. Beyond this, political organizations have a wide range of regulatory instruments including audits, inspections, financial controls, performance indicators, plans and annual reports.

The third dimension is the one specific to **market services**. This is translated by boosting efficiency and innovation. In other words, competition involves rivalry between providers. If competitive behavior rather than the owner of the organization is the key variable, the quality of services should increase if the rivalry is between public organizations or between public and private organizations.

2. Elaborating the budget of public institutions by the method based on performance (Performance Budgets)

The significance of the concept of budget emerged economically in the conditions in which the state began drawing up lists of income and expenses reflecting the activities of its institutions. In preparing the budget projects there exists initially a preliminary stage which consists of evaluating public finance resources and expenditure flows. This is done taking into account the income and expenditure for previous years, and the decline and growth of GDP and government debt. In developing such a project public accredited and specialized institutions participate.

Elaborating the budget by the method stated implies that any public organization tends to maximize its production of goods and services by low costs and with a given level of resources. This involves an efficient operation and allocation of available resources.

Such an approach requires a ***set of essential criteria*** such as:

- *Participation and transparency in decision process* (participation throughout the development process is a right and obliges the state and other stakeholders to create an enabling environment for the participation of all stakeholders);

- *Responsibility of actors* (public and private institutions with actors should be accountable to the public, especially to the poor, to promote, protect and fulfill human rights and to be held accountable if they are not applied);

- *Non-discrimination* (equity and equality over all rights are key ingredients for development and poverty reduction).

From the definitions presented in the literature on the Method of Performance Budget we stop in the analysis to the one exemplified by Hager Greg and Alice Hobson. According to the authors mentioned, this method represents - *a tool to improve efficiency in the public sector*. This budget type cannot be applied to all public institutions. Demarcation criterion refers to ways of quantifying the performances. For example, specific to this method are: theaters, libraries, public utilities companies, etc.

These issues mentioned above point out that the budget process can help improve the allocation of funds, for example, by using fiscal rules or information on the performances recorded. Moreover, modern management practices such as achieving performance budgets help simplify budgeting processes and increase their results. Such developments reflect the effectiveness of different types of policy measures (different outputs produce a single result). It is difficult highlighting the various outputs of the final result. Often there are delays between the implementation of the measures and their impact; also, there is interpenetration between the various public programs that affect certain results. These are often determined by external factors such as lifestyle and socioeconomic conditions. It is therefore very difficult to determine all the influences and causes. Even if policymakers are interested in the final results of the implemented policies such as increasing growth potential, these are only partly under their direct influence and often materialize in periods exceeding the election cycles. For example, to achieve higher rates of literacy (goal) the public sector takes steps to increase enrollment rates in schools and improves public library services (output). However, the rate of literacy will not increase immediately.

In this context, McGill identifies ***seven principles*** governing the implementation of such a budget:

1. Performance budgeting cannot succeed if the change of the budgeting method based on input and output is not supported and implemented;

2. The need for a strategic context to facilitate the allocation of resources;

3. The requirement to perform public annual reports of revenue and expenditure;

4. Resource allocation is made taking into account the current performance and future intentions;

5. Performance budgeting requires establishing priorities according to importance, making it impossible to avoid difficult choices;

6. The key unit of planning and analysis of performance budgeting is the program; However, performance budgeting should harmonize the structure of the program with the organizational structure;

7. Measurement of efficiency and effectiveness is made by budgeting performance.

3. Conclusions

In conclusion, the literature pays attention to public sector performance measurement. Rows written by consecrated authors in the field revolve around *two goals*: one made to reduce public budgets and increase the efficiency and the second, the effectiveness of government. In light of these objectives there have been introduced in the public sector market-specific mechanisms such as: privatization, competition between administrations, sharing public units in non-governmental and quasi-autonomous organizations, etc. Such changes have led to the adoption of the growing number of techniques to measure and improve performances.

Quantifying performance itself may not oblige people, but this important management tool of the public institutions can convince and ultimately determine them to performance, depending on the credibility held by everyone involved in the process. The principles that guide the process and rules should be presented, discussed, and agreed upon by all participants in the life of the city in which operates the public institution.

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