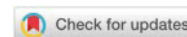


PROGRAM ORIENTATION OF MUNICIPAL BUDGETS

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Abstract: The purpose of the article is to show the necessity of developing program-oriented municipal budgets. The view of different authors on the subject is presented, as well as good practices of other countries. The existing practice of developing strategic documents and budgets in Bulgarian municipalities is described. A sociological survey was made of the opinion of business organizations as partners of local authorities, regarding their participation in the budget process and in the development of strategic documents for the development of municipalities. The results show a rather skeptical attitude towards the possibilities of business organizations to influence local policies and the development of budgets. A proposal is made in the national legislation and in the local normative base of the municipalities to establish the requirement for coordination of the strategies, plans and programs developed at the municipal level with the annual budgets. Program budgeting at the municipal level is not only possible, but also imperative, due to its efficiency, transparency, opportunity for wider citizen participation in the budget process and in the development and implementation of local policies.

Keywords: budget process, programming, citizen participation, program-oriented budget

Field: Social Sciences, and Humanities

Introduction

Program budgeting gained popularity after 1956, when the so-called PPBS (Planning, Programming, Budgeting System) system was introduced in the USA. Among the countries that are most actively moving in this direction, apart from the USA, the UK, Australia and New Zealand can stand out in particular. Program-target budgeting was introduced in Russia in 2003. Since 2013, federal budget expenditures are formed in the context of state programs (approximately 45-47% of expenditures). The constituent entities of the Russian Federation are switching to program budgeting from 2016.

In Bulgaria, an attempt was made to introduce the principles of PPBS as early as 1972 (Георгиев, P, 2023), when there was talk of a program-target approach to planning. The idea of the program-target approach has a lot in common with the characteristics of program-oriented budgeting. At the same time, the centralized economy did not allow this approach to be applied at all management levels, but only at the highest ones, since enterprises did not have the opportunity to plan their activities themselves. This also applied to the municipalities, whose development goals were also set “from above”. All this compromises the whole idea of program (or target) oriented budgets.

In the second half of the 1990s, the advantages of program-oriented budgets, also called goal-oriented budgets or budgets oriented to final results, were presented at numerous trainings for representatives of the state administration in Bulgaria, held under the Local Self-Government Initiative Program of the American Agency for international development. Budgeting based on results, or program-target budgeting, fundamentally changes not only the content of all stages of the budget process, but also the very concept of public expenditure management.

In 2020, the Audit Chamber of the Republic of Bulgaria published a report on an audit “Effective implementation of program budgeting as a tool for optimal allocation of resources” (Сметна палата на Република България, 2020). The title of the audit report speaks eloquently about the objectives and scope of the audit, as well as the auditors’ understanding of the essence and role of program budgeting as a key mechanism for ensuring the effective implementation of public expenditures.

Linking budget programs to policy goals is a key guarantee of government transparency and accountability – taxpayers have the right to know and control what the goals of each budget program are, what measures and actions the institutions want to finance and whether they actually lead to the achievement of these goals aims. In the international comparative Index “Open Budget”, Bulgaria shows a number of weaknesses in the full use of program budgeting - lack of connection between public goals and the activities carried out, lack of clear and measurable indicators of the success or failure of individual programs, lack of analysis of past results periods and closing or reforming failed programs, etc.

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1. Nature of program budgeting

Program budgeting in the modern economy is one of the main ways to improve the effectiveness of budget expenditures. As a rule, the results within the framework of program-target budgeting should be aimed at increasing the accessibility and quality of social and other services for citizens. The program budgeting logic model is presented in Figure 1.

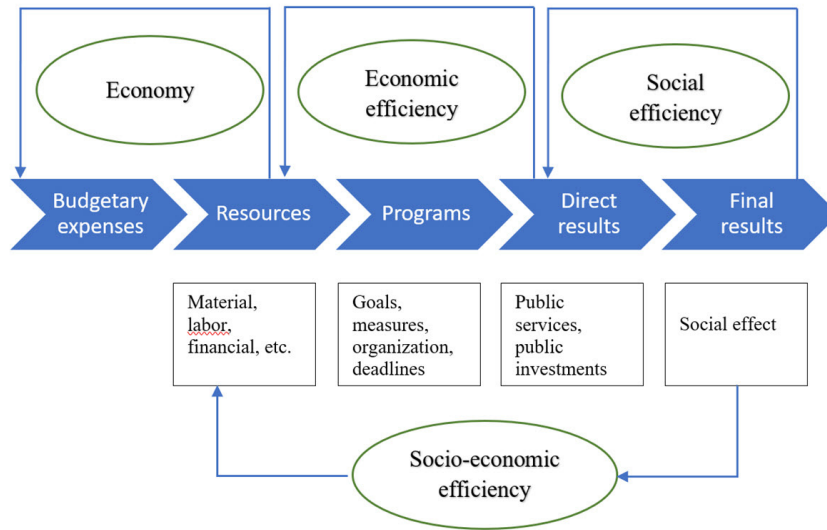


Figure 1. Logic model of program-oriented budgeting

The Public Finance Act states that the first-level budget authorities for the budgets of the Council of Ministers, ministries and state agencies also apply a programmatic budget format. It is specified that the Council of Ministers may also designate other first-level budget managers to implement a program format of the budget. Municipalities are the primary allocators of budget funds, but until now this requirement does not apply to them. Most of the municipalities follow a budgeting technique that has been known for tens of years – first, the determination of the amount of the subsidy from the republican budget is awaited, then - the control figures of the tax office for tax revenues, non-tax revenues are determined taking into account the performance in the past years, and finally, after calculations are made for the necessary expenses, the income is balanced with the expenses, making the necessary adjustments. This practice ignores basic normative statements, namely the requirement that the budget be drawn up on the basis of developed strategies, forecasts and proposals from the population. Compliance with the principles of economy, publicity, effectiveness and efficiency require that level and quality indicators are developed for each municipal service, the value of the service is calculated and only specific results are financed. Therefore, changes are needed in the budgeting process at the municipal level, which boil down to the following:

1. The development of the budget should begin with an update of the strategic goals of the municipality and clarification of the specific annual goals laid down in the strategies, plans and programs, the achievement of which will be financed in the relevant year from the budget;
2. Balancing should be done by adjusting the annual goals;
3. The budget report should not contain data on the implementation of the revenue and expenditure part, but information on the degree of implementation of the set goals.

Implementing these requirements in practice means moving from a resource-based budget to a program-based budget. Unfortunately, the lack of experience, the routine, as well as the need for additional commitments of the employees from the financial services of the municipalities demotivates them to take actions in this direction. This is just one more argument in favor of the statement that the budget process in municipalities should be subject to serious discussion and detailed regulatory regulation, including through local regulations.

Budgetary reforms that shift the focus from inputs to outputs and outputs lead to better use of public resources and increase the accountability of governing bodies to the public. Evidence of the correctness of this thesis is provided by the reforms in local self-government in various countries such as Brazil, Poland, the USA and Switzerland. Systems of the type of “results-oriented budget processes” are also called by other names, such as “service-level budgets”, “zero budgets”, “performance-based budgets”, “objective-oriented budget approach”, but the idea is the same - the starting point in the development of the budgets and the end result of their implementation should be the goals and policies, not the utilization

of the funds.

In the international comparative Index “Open Budget”, Bulgaria shows a number of weaknesses precisely in the full use of program budgeting - lack of connection between public goals and the activities carried out, lack of clear and measurable indicators of the success or failure of individual programs, lack of analysis of the results for past periods and closing or reforming failed programs, etc. (Partnership, 2023) It is a common practice of the Bulgarian municipalities that the goals and measures laid down in the municipal strategic documents do not correspond with the budgets. There is also a lack of a clear connection between plans and programs, on the one hand, and municipal budgets, on the other. This hinders the effectiveness and the possibility of actually achieving the goals set in the strategic planning documents. Moreover, in the conditions of increased inflation, the multi-year financial framework and budgets at all levels are characterized by a high degree of unpredictability. This fact, together with the inconsistency and prevailing uncertainty of the national sectoral policies, are negative factors hindering the qualitative progress of the strategic planning process at the municipal level as well. The lack of resources for the implementation of the measures provided for in the planning documents leads to their non-implementation, which provokes a negative attitude towards the overall planning process and creates a feeling of the unnecessaryness of the planning activity.

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2. Empirical study

In order to study the opinion of the socio-economic partners of the Bulgarian municipalities, who are most interested in introducing program budgeting, a survey was conducted among 100 business organizations from 30 large, small and medium-sized municipalities in Bulgaria. Their opinion was studied whether the interests of entrepreneurs are taken into account when drawing up municipal budgets, whether they themselves know the strategic documents for the development of their municipality, whether local budgets are developed taking into account the interests of the local community, whether municipal strategies, plans and programs have a clear defined objectives and indicators allowing monitoring of implementation and whether representatives of interested parties participated in their development. The table below shows that there is a preponderance of responses that indicate skepticism rather than confidence that the interests of the socio-economic partners of local authorities are well protected in the development of budgets and strategy documents. One of the reasons for this is precisely the broken connection between strategies, plans and programs, on the one hand, and municipal budgets, on the other. Other reasons can be found in the lack of good communication between local government and business, as well as in the lack of effective mechanisms for the involvement of interested parties in the development of budgets and strategic documents regulating local government policy in various areas.

Table 1. Results of an empirical study

Questions	No	Partly	Yes
<i>Do you know the main strategic documents for the development of your municipality, the priorities, goals and measures included in them</i>	27%	59%	14%
<i>Municipal strategies, plans and programs have clear performance indicators that allow monitoring and evaluation of performance</i>	31%	31%	38%
<i>Representatives of interested parties are involved in the development of strategies, plans and programs at the municipal level</i>	33%	43%	24%
<i>Local budgets are developed taking into account the opinion and considerations of entrepreneurs in defense of their economic interests</i>	28%	55%	17%
<i>Local public interests guide the allocation of municipal budget funds</i>	29%	53%	18%

3. Discussion

Program budgeting is most often combined with other models, as in Denmark, Finland, Sweden and Turkey. In its pure form, it is used in Japan, Iceland and the Netherlands. Pure direct program budgeting is an exception, with South Korea cited as an example in the academic literature. In a number of countries such as Sweden, Chile, Denmark, Finland and Norway, it is used in certain sectors of the economy such as healthcare and higher education. In university funding, formulas are applied as a key element for the performance of indicators. A distinctive feature of this model is the presence of indicators for the final product and result (Донев, К. &, 2015).

The most widespread in the practice of various countries around the world is the program budgeting oriented to the final results. It comes after a long experimentation of the model of budgeting based on indirect results in the USA, Canada and Australia. In combination with other elements, it is used in 14 OECD countries. The features of the model come down to the following:

- the emphasis is on the implementation of the final results;
- the budget is presented in program format;
- program classification of costs is applied;
- the goals are described and presented through indicators for measuring and reporting the final results;
- technologically, the stages related to the budget process have characteristics inherent in the model of program budgeting oriented to an immediate result;
- there are mandatory indicators for the final results, thus there is an opportunity to improve the monitoring and control of the budget;
- information on the final results is extremely important for making political decisions and monitoring the effectiveness of the services provided to the public by the public administration;
- the responsibility of politicians to society and the transparency of the budget increases.

Recommendations for local governments regarding developing local budgets and implementing program budgeting are made in the 2012 US OpenGov Best Practices in Local Government Budgeting document, which states: "Have a clear, well-defined process. As an organization plans, develops and approves the budget, all key steps of the budget process must be clear on an annual and month-by-month basis. Visual representations of the process—budget calendars, timelines, and charts—can help clearly identify important deadlines, milestones, required action items, and committed personnel. Start with a vision, goals and strategic plan. The budget supports what a municipality and its citizens want to achieve – now and in the future. Therefore, a successful budget process must begin with city leaders articulating a clear vision, identifying community and departmental goals, and undertaking a strategic plan that will help mitigate conflicting goals" (OpenGov, 2023).

Former California and San Luis Obispo CFO and municipal consultant Bill Statler says, "If you have an idea of where you want to be, your chances of getting there are greatly increased. While it is important that leaders drive the vision forward, it is also important that citizen input informs and guides that vision as it develops. Prioritize. Choose to focus on solving key challenges in a given budget year. Trying to tackle everything at once is not only inefficient, but also often leads to staff burnout. Identify a focus area and devise a clear strategy to address it, making sure to report the results back to the community."

In "Handbook for Connecticut Boards of Finance. A Guide to the General Statutes & Principles of Financial Administration" of the State of Connecticut, USA from 1992 states that program budgeting is an old practice in municipalities in the state: "PPBS combines the older concepts of program budgeting and performance budgeting with their orientation to a program rather than a classification of objects into a package that can be applied to whole-of-government planning. The significance of PPBS for Connecticut municipalities is the continued emphasis on programs; but in this case, the program is extended to identify basic government goals and analyze various methods of achieving those goals. This budgeting approach is actively used in state and local government" (Hill, Handbook for Connecticut Boards of Finance. A Guide to the General Statutes & Principles of Financial Administration, 1992).

Conclusion

For nearly 10 years, program budgeting has been mandatory for ministries and state agencies in Bulgaria. In the State Administration Development Strategy (2014-2020) entitled "We work for the people", the requirement to introduce program budgeting at all levels in the administration is "better linking of the processes of strategic planning and budgeting, including the processes of prioritization and allocation of

expenses". It also states that "the Ministry of Finance, with the help of the interested institutions, will place a serious emphasis on the development and introduction of a result-oriented state budget. The planning and implementation of the state budget must be carried out on the basis of separate programs aimed at achieving specific results. ... A special emphasis should be placed on the development of the annual goals of the administrations, which are consistent with the strategic documents and the program budget" (Министерски съвет, 2023).

The subsidies granted to municipalities in Bulgaria are part of the state budget. The municipalities themselves are primary budget managers. All this shows that program budgeting at the municipal level is not only possible, but also imperative, due to its efficiency, transparency, opportunity for wider citizen participation in the budget process and in the development and implementation of local policies.

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