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## *How to introduce result oriented budgeting in Hungary – a proposal*

### EXECUTIVE SUMMARY

In Hungary, as in many other developed and converging countries, the revenue side of the budget is expected to shrink and its expenditure side to expand in the forthcoming decades unless measures are taken to prevent this development. International tax competition will enforce the lowering of tax rates, e-commerce will slash VAT revenues that can be collected, the free movement of labour and capital will facilitate tax avoidance, environmental problems will hike health expenditures and curb economic growth while the heightened quality expectations of citizens will boost the costs of public services. In order to bridge the ever growing gap between shrinking revenues and increasing expectations and to prevent the

resulting continuous quality deterioration of public services, governments need to address the related problems at the root (e.g. the sustainability of the pension system should be assured primarily through changing the pension rules themselves). Nevertheless, improving the efficiency of public functions may also contribute perceptibly to alleviating the pressure on the budget.

However, efficiency improvement is not only important when the fiscal room of manoeuvre becomes limited. According to *Wierds* (2005), between 1998/99 and 2003/04, Greece saved an amount corresponding to approx. 10%, and Italy approx. 5%, of its GDP on interest expenditures as the interest rate differential disappeared after they joined the Euro area. The weak system of budgetary institutions may be one of the main reasons why this suddenly increased room of manoeuvre was not used towards areas key to growth; instead, all of it was absorbed by the expansion of government consumption and transfers. In the same period, the French, who have a more advanced budgeting system and whose expenditures declined by only one percentage point of GDP, managed to increase their government investments and decrease the ratio of transfers with the same amount. On the

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whole, based on the figures of old Member States, Wierts concludes that the countries at the vanguard of modernising their systems of budgetary institutions, e.g. Denmark and the UK, tend to be more successful in transforming the structure of their expenditures to the benefit of investment in physical and human capital. Fortunately, Hungary has a good chance of attaining as much as HUF 1000 billion of extra margin of discretion in the near future through the expected decline of the interest rate differential and also because the recently adopted fiscal austerity measures will provide additional room of manoeuvre in the budget once growth recovers after the crisis. It is imperative that the government take this opportunity to reform the expenditure structure of the budget in accordance with long term objectives.

A possible method of increasing efficiency, in addition to exploiting the opportunities offered by information technology, is to improve the quality of decisions through the introduction of a result-oriented budgeting system and performance-based institutional management in public agencies.

There are a number of approaches to the result-oriented transformation of the budgeting system<sup>1</sup> and, related to this, the concept of the result oriented budgeting system. For instance, *Kim et al* (2005) offer a very broad definition:

“...the basic idea of program budgeting is very simple: budget information and decisions should be structured according to the objectives of government.”

The result oriented transformation of the budgeting system changes the circumstances in which decisions are made regarding the distribution of public funds. It modernizes the information system that supports decision making as well as the documents that set out the decisions (e.g., the Budget Act). In case of certain types of decisions it also changes the

person of the decision maker so that attention is directed to the real objectives of the performance of public functions and incentives for their achievement are introduced. In such budgeting systems, public expenditures are displayed in a functional breakdown, expenditures are mapped to social objectives and the attainment of these is measured by indicators. All this also enhances transparency and efficiency. Citizens may track the amount, purpose and results of government spending while decision makers may allocate resources based on more extensive and more relevant information. At present, political decisions are often made groping in the dark. Who could say, for instance, whether another school milk program is necessary in a system where it is impossible to tell if the previous one was successful or not. Indeed, the objective against which we could measure success is unclear itself; did the program increase the actual milk consumption of pupils, did it educate for healthy nutrition or support milk producers? In a result oriented budgeting system, all this information is generated automatically for every program, not just when an issue comes to the limelight for one reason or another.

In our proposal we do not wish either to discuss the academic literature relating to result oriented budgeting systems or to present international examples; we merely note that many elements of our proposal rely on the performance based budgeting of the US and Canada; furthermore, we also used the Swedish, Dutch and French program structures as examples.

Further information on theoretical overviews and international analysis is provided in State Audit Office research centre publications written by *Gusztáv Báger* and *András Vígvári* and in the study *The State is for us* published by the DEMOS Hungary Foundation

Table 1

**MAIN FORMS OF THE PERFORMANCE OF PUBLIC FUNCTIONS**

	Public funding	Private funding
Performance of function through public institution	Foreign policy, municipal school	Land registry
Performance of function through private institution	Schools maintained by foundations	Service obligation of public utilities

**THEORETICAL CONSIDERATIONS FOR THE RESULT ORIENTED REFORM OF THE PERFORMANCE OF PUBLIC FUNCTIONS**

The general government can contribute to the performance of its functions, varying from era to era and from country to country, in one of two ways: by financing and/or by executing them. *Table 1* presents examples of the main forms of the performance of public functions.

Result oriented budgeting systems differ from resource-oriented systems both in terms of public funding – i.e., allocation of funds among functions – and in terms of the performance of public functions. The next two sections will describe those differences.

**General description of resource- and result-oriented financing**

The result oriented transformation of the budgeting system sets out to increase the efficiency of public functions by changing the circumstances in which decisions are made on the distribution of public funds. It changes the information system that supports decisions as well as the documents that contain the decisions (e.g., the budget act). In the case of certain types of decisions, the person of the decision maker is different as well so as to direct attention to the real objectives of public functions and to introduce incentives for accomplishing them.

The latter means the following: While in the traditional resource oriented model almost all important decisions are made on the *political*

*level*, in the result oriented budgeting system policy making is clearly separated from the level of service provision and politicians *delegate* technical decisions to the *technical level*. In practice this means that decisions-makers on the political level (e.g. Parliament) give more margin of discretion to decision makers at the technical levels (e.g. the staff of ministries), not telling them exactly how and on what the funds made available to them should be spent.<sup>2</sup> Naturally, in this case politicians must use other means to assure that they get what they expect in exchange for the funding. This other means, replacing the former tight control over the resource-side (i.e., *input-side control*), is the specification of *outcomes (or outputs)* of the functions in the form of performance indicators. In other words, in the result oriented budgeting system, the most efficient mode of attaining the outcome determined on the political level is selected by program managers on the technical level, who, making use of their considerable margin of discretion, determine the quality and quantity of the services necessary to attain the outcomes, which then they purchase from service providers. In this system, the political decision does not directly determine the amount of funds to be allocated to an institution; instead, it specifies programs, to which funds and attainable outcomes are allocated.

This is also reflected in fiscal documents: while the *resource oriented* budget makes resources available to institutions, the *result oriented* budget allocates resources to results. However, political decision makers do not define objectives for information purposes

only; the attainment of these objectives (or otherwise) has an effect on financing as well: instead of the former *incrementalism*, now *performance information affects* fund allocation decisions, with successful programs receiving more funding than their less successful counterparts.

There are different levels to the integration of performance information into the budgeting process. In the case of a purely resource oriented budget, no performance indicators are generated and, accordingly, they cannot play any role in funding allocation decisions, thus the most important point of reference is the amount of funding allocated in the previous year (“baseline”). In the case of a minimal level of integration, the processes of budgeting and performance management are separated and performance information is presented in documents other than the budget. Yet the structure of the two documents (program structure) is identical, which in theory facilitates the use of performance indicators in the budget debate. In the case of limited integration, the performance information is present in the budget and thus it can influence decisions on fund allocation but the relationship between the two is not function-like. This is generally called *performance-based budgeting* or *performance-*

*informed budgeting*. In the case of full integration, the increase of funding to any task is the “mathematical” function of the results achieved and the function relationship can be determined in advance, when the outcome objectives are set. (E.g. “Next year we shall increase the funding of the crime prevention program by 20 per cent if juvenile delinquency is reduced by 5 per cent by the end of this year.”) This is generally called performance budgeting.

The information systems that support decision making are also different in resource oriented and result oriented systems. In the resource-oriented budgeting system, the foremost objective of the information system, concentrating on *cash* expenditures, is to *control* the annual fiscal *deficit* and to *assure liquidity*. In the result oriented budgeting system, the information system uses *accrual based* accounting data to calculate the total costs of programs,<sup>3</sup> and contrasts them with the performance indicators measured in cash and physical units so that different ways of attaining results can be compared in terms of *economic efficiency* while the *value for money* principle is enforced. (See Table 2)

In addition to the above, the concept of evidence-based policy making is closely linked to result oriented budgeting systems.<sup>4</sup> This means in

Table 2

**FEATURES OF RESOURCE ORIENTED AND RESULT ORIENTED BUDGETING SYSTEMS**

	<b>"Traditional" Resource oriented Line item budget</b>	<b>"New" Result oriented Program budget</b>
Location of technical decision	political level	delegated to technical level
Approach of political level decision	input approach	output/outcome approach
Budget presentation	institutional approach	program approach
Allocation of funds	incrementalism	performance based
Accounting method	cash basis	accrual basis
Basis of choice between alternatives	financial outlay	total cost
Purpose of budget document	liquidity management deficit control	efficiency increase value for money

essence that academic results (data accumulated in the course of domestic or foreign programs or their testing as well as the conclusions drawn) and the opinions of stakeholders outside the government must be integrated into decision making. Logically, decision making consists of the following phases: (1) politicians set the objective, (2) experts devise alternative solutions based on academic knowledge and measured data and collect the views of external stakeholders, (3) if necessary, politicians negotiate with external stakeholders then choose from the alternatives, and finally (4) experts implement the chosen solution. In the absence of clear separation of politician and expert roles and without respect for the dividing line, politicians often communicate the solution to be implemented without setting an objective, then regularly interfere during implementation. Politicians often communicate a number of general, not clearly defined objectives and they also set measures to be implemented as if independently from the objectives. Even though we do not need to look far to find examples, this practice, which can be called ill-conceived political governance, is not specific to Hungary.

Even though in result oriented budgeting systems some of the decisions are delegated to the technical level, their introduction tends to change power relations to the advantage of the legislator (Parliament) and in general strengthen political governance because, by setting targets, Parliament may have a greater impact on the outcome of the performance of public functions than it could through the detailed allocation of expenditures.

### General description of the resource and result oriented performance of functions

In result oriented budgeting systems, decision makers participating in policy making break

down the final policy outcome into outputs, preferably at the end of an evidence-based decision making process, and order those from one or more eligible organisations. These organisations may be owned privately (e.g. privately owned highway construction and operation companies) or by the central or local governments (e.g., budgetary institutions or state-owned companies). Naturally, the institutions may also purchase services from one another based on a quasi-market rationale.

#### INDICATORS FOR INSTITUTIONS WITH DIFFERENT TYPES OF FUNCTIONS

The type of goods or, more often, services produced by the various institutions affects the nature of these so-called performance contracts and the scope of applicable indicators. The functions performed by public institutions can be classified into three main categories: supply of services, law enforcement and policy making.

Indicators tend to be the most self-evident in case of institutions supplying services, e.g. education or health care institutions, preparation of statistics, meteorological service, etc. It is considerably more difficult to find appropriate indicators for enforcement. Enforcement includes all forms of law enforcement (e.g. police, the court, market surveillance bodies, Hungarian Tax Authority, etc.), but it may also include prior authorisation (such as the authorization of placing medicinal products on the market). For example, in the case of law enforcement bodies, the ratio of exposed/detected cases to total committed crimes is a possible indicator but unfortunately, this data cannot be observed in most areas. Policy making, either in the form of legislation or one-off resolutions, is typically the task of Parliament, the government or ministers,<sup>5</sup> and they are assisted in this function by a staff of experts for consulting and decision preparation. In this area, it is practically impossible to find appropriate output indicators.

After the manager responsible for the program unit has ordered a service from the agency, the agency manager may decide to further break down his target to intermediate tar-

gets for the organisation units and employees of his agency, facilitating his own managerial decisions and also laying the foundations for performance based compensation. The adoption of a result oriented system, i.e., the conclusion of *performance contracts* and the performance based transformation of the internal operation of the agency are fundamentally different steps that can be taken separately; neither is a precondition for the other.

### What should be covered by the plan of the budgeting system reform?

Any proposal for budgeting system reform should first and foremost take stock of the elements of existing budgeting systems. The operators of budgeting systems, that is, the actors in the process of budget planning, approval, implementation and evaluation often regard their own system as the only way of doing their job. It is important to make decision makers and budgeting system participants in general aware of the features that set apart various national budgeting systems in the world along with the decision points where changes can be considered. Naturally, we will not consider all possible changes here, for instance, we will not address the length of the budgeting period even though neither its duration nor its start date is the same in every system; we will focus on elements that, in our opinion, need to be changed.

Below, first we present the structure of the proposed budgeting system. One element and at the same time the starting point of the proposed changes is the transformation of the current order of budget chapters into a program structure. Legally, each of the present Hungarian budget chapters is the direct responsibility of an organisation, with most appropriations belonging to a single institution; the whole budget is organised around

institutions. This structure undoubtedly allows the identification of the person or organisation responsible for lawful and rational spending regarding each single Forint. In practice, however, from the considerations of legality and rationality, only the former can be examined easily in this framework and, accordingly, the State Audit Office also focuses on this during its audits. Thus today we can tell whether budget expenditures were made lawfully and if not, who is responsible, but we cannot tell whether the various expenditures were rational and in the light of what objective they were supposed to be rational. Yet this is the question that may be the most interesting for citizens: how much the state spends on a certain purpose and what results are achieved with that expenditure; in other words, what we get from the state and at what price.

#### ELEMENTS OF THE PROPOSED BUDGETING SYSTEM

Structure of the budgeting system:

- Program structure
- Hierarchy of indicators

Mechanisms driving the budgeting system:

- Presentation and accounting rules
- Decision-making powers
- System of incentives
- Budgeting and program review cycle

The preconditions of the proper operation of the budgeting system:

- Legal regulation
- Organisation building
- Staff training
- Information technology

In a result oriented budgeting system, budget items belong to programs organised in a *hierarchical structure* around the set objectives – instead of institutions and chapter-managed appropriations, policy makers allo-

cate funds to main programs, programs, subprograms and activities, i.e., program units. There are indicators for each program unit to measure and assess whether the various program units were successful and attained the targets set for them.

In the system we propose, the program structure covers the expenditures of the central government, i.e. it excludes the revenue side and the expenditures of local governments. At the same time, we propose that tax expenditures are included in expenditures through gross settlement and that targeted and normative grants to local governments are also included in the program structure, broken down to the various social objectives.

After the presentation of the budgeting system that seems appropriate for implementation in Hungary, i.e., having determined the objective to be reached, we will also discuss the conditions of system implementation and operation.

## PROPOSED STRUCTURE OF THE BUDGETING SYSTEM

### Programs instead of budget chapters

In our proposal, the structure of the budget would be organised by policy making level: (see *Chart 1*)

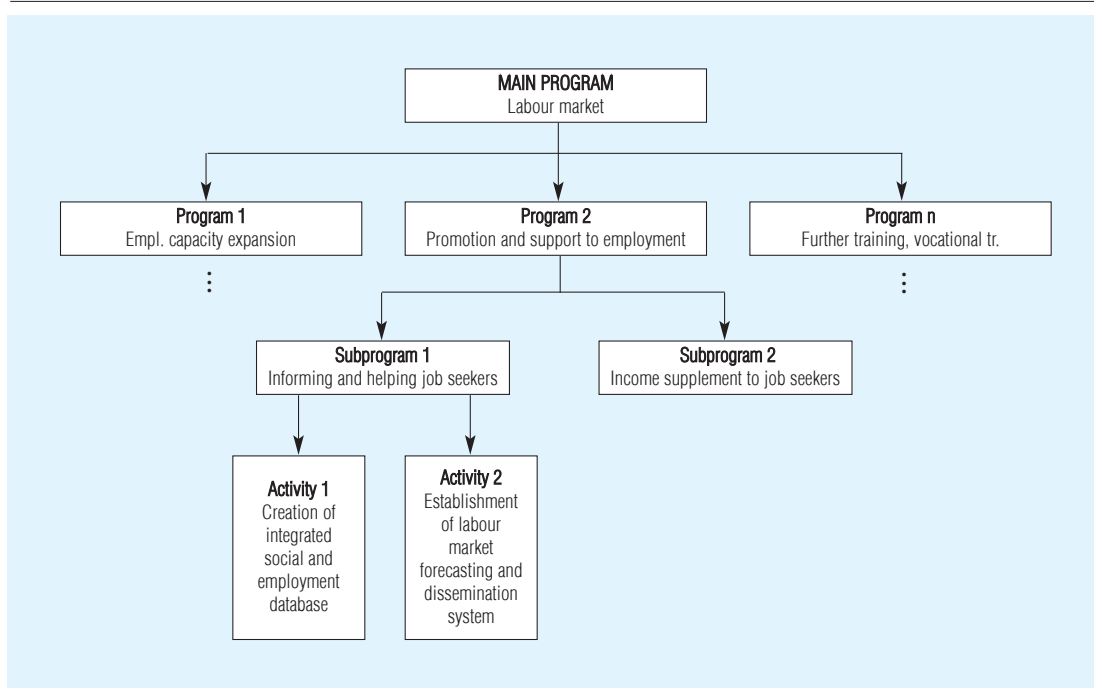
- ① Main programs
- ② Programs
- ③ Subprograms
- ④ Activities

We will call main programs, programs, subprograms and activities collectively program units. Each program unit has a manager, meaning, with the exception of main programs, single-person program unit managers, with a hierarchy corresponding to that of the government.

▶ The funds available for *main programs*, i.e., expenditure budgets, are decided by Parliament in the Budget Act. As programs in the same main program may not all belong to the same

Chart 1

### ILLUSTRATION OF THE PROGRAM STRUCTURE<sup>7</sup>





minister, the regularity and efficiency of the use of funds on the level of main programs is the responsibility of the government.<sup>7</sup> Based on international (French, Italian) examples, the number of main programs may be around 20–40.

► *Programs* more or less correspond to the 100–150 permanent themes clearly visible in the existing budget, from the operation of Parliament through waste management and sports to health care and employment policy. The funds available for programs, i.e., expenditure budgets, are also decided on by Parliament in the Budget Act, but as opposed to main programs, programs have single ministerial-level managers who are responsible for program implementation as well as the regularity and efficiency of fund utilisation. Parliament allocates the budgets of main programs to programs, but this allocation does not need to cover the entire available sum. Expenditures not yet incorporated into the program structure are classified into the so-called “*off-program expenditure*” category. Below each main program there is an “*off-program expenditure*” category containing expenditures that relate to public functions not yet translated into independent programs. Initially very large, this “*off-program expenditures*” category will gradually shrink as the system develops until, hopefully, only general administrative, non-ministerial costs remain in it.

► The allocation of funds to *subprograms* within programs is the responsibility of the program manager; however, just as he is not obliged to organise all functions into subprograms, he is not obliged either to allocate the entire sum among subprograms: there will be expenditures within the program but without subprograms. Thus, some of the subprograms are likely to be on the government or ministry level while others, similarly to programs, may be elevated to the level of legislation, i.e., included in the Budget Act. The amount of funds allocated to such parliamentary subpro-

grams is decided by Parliament. Subprograms may be permanent, like programs, or *finite* (e.g., a railway reconstruction program or the propagation of certain health screening tests<sup>8</sup>); in this case, the expected duration of the subprogram must be determined when it is launched. Subprograms are headed by a minister, state secretary, manager of an agency constituting a separate subprogram or, in the case of finite subprograms, government commissioner. The appointment of government commissioners is appropriate for finite subprograms that require only limited inputs from lower levels as the government commissioner has not control over the ministry staff. The use of funds allocated to subprograms is the responsibility of the subprogram manager but this does not relieve the minister supervising the program concerned from political responsibility.

► In the case of *activities*, the rationale is the same. The subprogram manager allocates his subprogram's funds either in part or in full to activities, for which activity managers, typically heads of department of ministries, are responsible (in terms of the regularity and rationality of the allocated funds). Ministerial commissioners may also be appointed to head finite activities. Thus there are two types of expenditures allocated to subprograms: activity-linked expenditures and expenditures outside activities.

It is important to add that even though Parliament does not need to specify the details of the use of funds when determining the expenditure levels of programs and subprograms, if it wants, it may of course set further requirements for the government in the Budget Act regarding the use of certain funds. Similarly, the government may also set requirements over and above the allocation of expenditure budgets in government decrees, for instance limiting the personnel-related expenditures in certain areas.



The heads of the aforementioned levels of public functions, that is, program unit managers, are engaged in policy-making. They can conclude contracts with public institutions purchasing goods or services, i.e., the performance of certain functions from them. Naturally, these contracts will typically be concluded by activity managers, i.e. heads of department as this is the level where most of the tangible, concrete tasks are present. Nevertheless, this option should also be left open to higher levels because a program manager who has only partially allocated his functions into subprograms may want to spend from the unallocated expenditure budget on something that can be purchased from a public agency under a performance contract. This is illustrated in *Chart 2*.

At this point it is worth discussing the “dual nature” of ministries as policy-making bodies. It is the program manager ministers, subprogram manager state secretaries and activity manager heads of department who establish program units and thus create the hierarchy of indicators. They represent the steps of the first pyramid in *Chart 2*. At the same time, the ministry may also be part of the system as an agency, in which case the minister is on top of the second pyramid as agency manager. Thus, there may be two series of indicators belonging to a ministry: one devised by program unit

managers acting as policy makers (e.g., the program unit indicators of the Health Ministry derived from life expectancy), and another one which the minister acting as the agency manager establishes for his subordinates for management purposes (e.g., the completion of the budget bill by the deadline in case of the Ministry of Finance).

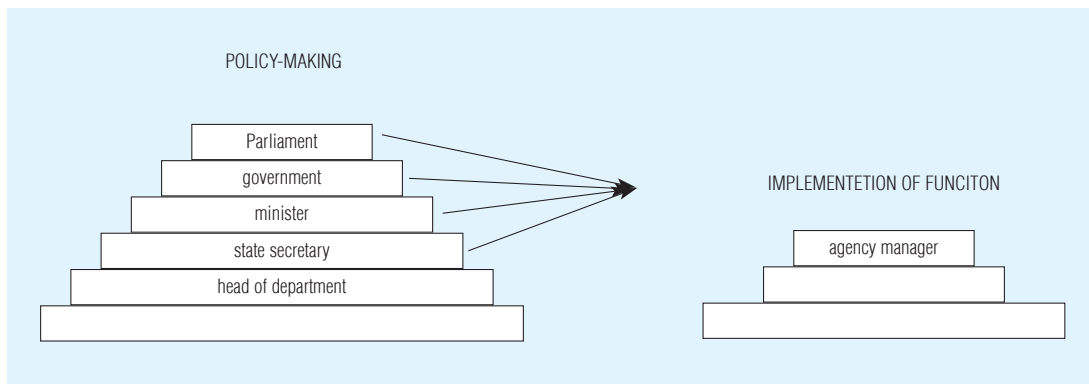
For illustration we present a possible program structure in *Annex 1*. Nevertheless, we should emphasize that the establishment of the program structure is not a one-off, unilateral decision; instead, the Ministry of Finance will compile the proposed list of main programs with the involvement of line ministries. Then Parliament will lay out this list in a law, just like the list of ministries. After this, the program structure will *evolve gradually as program units are established*.

**PRINCIPLES OF THE ESTABLISHMENT OF THE PROGRAM STRUCTURE**

- ▶ As much as possible, the allocation should be complete and free of overlaps.
- ▶ On the level of programs, the responsibilities of the various ministers should be clearly separated.
- ▶ Program units that we want Parliament to allocate funding to should be placed on the appropriate, parliamentary level.

*Chart 2*

**POLICY-MAKING AND IMPLEMENTATION OF FUNCTIONS**



Naturally, no program structure is perfect in every respect as there are several, often mutually exclusive, considerations to observe in the design phase. The breakdown must be complete and free of overlaps as much as possible; furthermore, it must also assure that, on the level of programs, the responsibilities of the various ministers are clearly separated. We are of the opinion that it is not worth establishing cross-cutting programs (extending over several ministries) or subprograms extending to the scope of responsibility of several state secretaries because that would compromise the transparency of responsibilities to an unacceptable level. Therefore, if an indispensable program makes sense only if it covers subjects belonging to more than one minister, then it is more appropriate to redesign the scope of responsibilities of the ministries; if an indispensable subprogram makes sense only if it covers subjects belonging to more than one state secretary, the organisation structure of the ministry concerned must be revised. There is another consideration related to the appropriate scopes of responsibility, namely that if we want Parliament to decide the amount of funding available to a program unit, we should not put them on a level below (parliamentary) subprogram (i.e., activity level).

## National indicators and program unit indicators

### *Hierarchy of indicators*

#### **PRINCIPLES OF ESTABLISHING THE HIERARCHY OF INDICATORS**

- ▶ Every program unit has performance indicators linked with it.
- ▶ There is a limited number of performance indicators related to each program unit so that the mass of information remains transparent to the decision maker.

- ▶ Interlinked program units also have interlinked indicators.
- ▶ Moving from higher-level program units to lower levels, indicators become less outcome-type and more output-type.
- ▶ Indicators should be proposed on the level of program units rather than centrally, but they should be in line with the general, centrally set expectations.

There are outcome indicators (so-called national indicators) for each main program; according to the current state of knowledge, these indicators are expected to be able to grasp *quantitatively* the position and achievements of Hungary (and within this, the economy and society) in the area concerned over a long period of time.

National indicators are selected by Parliament. They will represent the primary objective which every program unit and expenditure will serve to attain. As the main programs cover the entire budget without overlaps and each main program has its objectives measured by outcome indicators, each Forint collected and spent by the state must serve some purpose. Naturally, the same national indicator may belong to more than one main program because several distant measures may affect the same indicator. For instance, one national indicator may be the gross domestic product (GDP). This is likely to be influenced by infrastructure development and investment promotion as a possible main program but it may also be influenced through the labour market as the expansion of employment boosts economic output. Considering that the results of the main program are the responsibility of the government, this is not a problem in terms of the allocation of responsibilities.

Eligibility to program or subprogram status is limited to items that have an objective (and outcome indicator) derived from one or more objectives (and outcome indicators) of the unit

above them and that have a single manager on the appropriate level of the hierarchy. The government responsibilities that have not been converted into programs or subprograms belong to the “other” category below the corresponding main program; in the absence of a dedicated indicator, their performance is described by the movement of the main program indicators.

In terms of their nature, the indicators on the various levels of the program hierarchy may differ from one another. While the main programs, programs and in certain cases the subprograms must have outcome-type indicators, most subprograms and activities can have only output type indicators allocated to them.<sup>9</sup>

Achieving the target level of the indicator is the responsibility of the program manager (minister), who is the person to *translate the* outcome type indicators of the program into subprogram-level indicators. For instance, if Parliament requires the law enforcement minister as the manager of the “public security” program to reduce the number of car thefts by 10% in one year, it is the job of the law enforcement minister to decide how much the number of detected car thefts must increase in order to have a sufficient deterrent effect on potential future perpetrators, then to set this as an output indicator target for the subprogram manager, potentially one of the state secretaries. Alternatively, the minister may choose other means to reach the same end, for instance, the introduction of more severe punishments or the installation of surveillance cameras with an eye to prevention, or else he may leave this decision to a state secretary.

Similarly, the subprogram manager may break down his tasks to activities which may have their own output targets. Based on international experience, it is usually proposed that each program unit has only few (2 or 3) indicators as the setting of too many targets undermines transparency and accountability. *Chart 3*

shows examples of possible indicators linked to the illustrative program structure (*Chart 1*).

When the program unit managers order the performance of a public (sub)function from a public agency, they use a performance contract which expresses the quantity and quality of the product or service to be purchased in terms of output indicators and links remuneration on actual performance. In the performance contracts, activity managers are likely to pass on their own output targets to the agency managers that they contract with. For instance, the police may receive a bonus budget for performing this function based on the output indicator of the coverage of public areas with surveillance cameras. Thus an agency may join the result oriented system by concluding a performance contract with a program unit manager, that is, by undertaking to receive a fee for the performance of its functions depending on the quantity and quality of the goods or services supplied instead of a fix cost budget. In the hope of achieving higher remuneration, the agency assumes greater responsibility for its performance and undertakes the inherent risk.

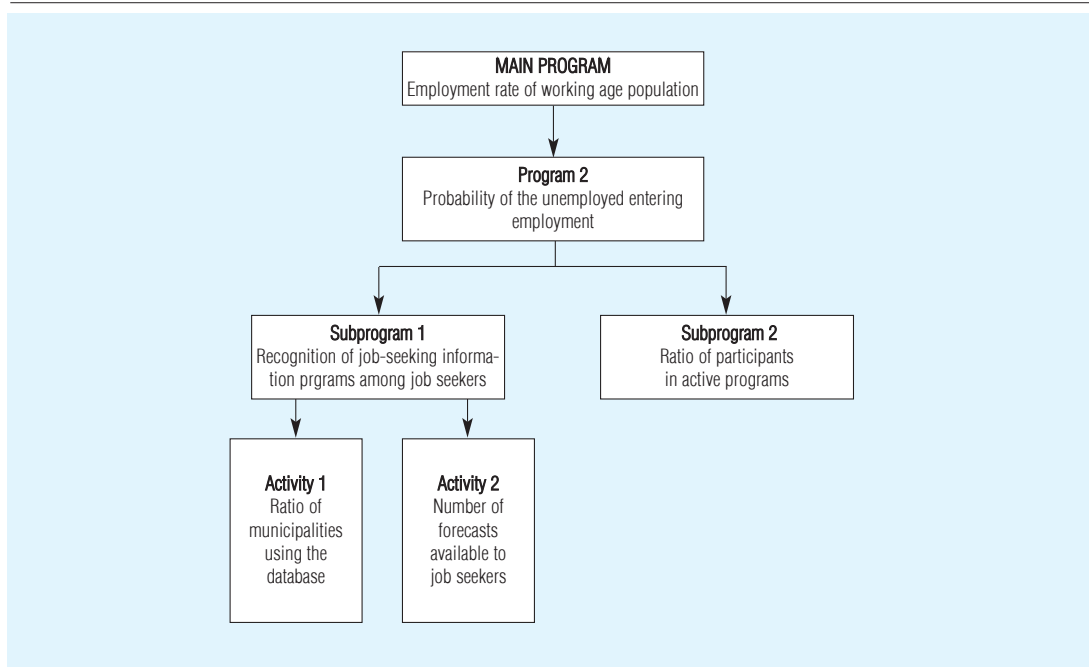
The agency manager may further break down the indicators to facilitate his own management decisions and performance-related rewarding within the institution; however, this proposal does not cover these intra-institutional indicators, only the ones supporting decision making by Parliament and the government.

As shown in *Chart 4*, decision making and the distribution of responsibility for implementing the decision follow the same process regarding indicator setting and the allocation of funds. The same actor specifies the target for the program unit who decides about the corresponding funds, and the person responsible for the regularity of the use of funds is also responsible for efficiency, i.e., for the attainment of the performance indicator targets.

The comparison of the levels of the program structure is summarised in the table in *Annex 3*.

Chart 3

**HIERARCHY OF INDICATORS<sup>10</sup>**



Based on the aforesaid it is clear that in the course of program structure elaboration, the most severe constraint is the *hierarchy of indicators*. The reason is that the indicators of the specific program units must all be linked closely to that of the program units above them. This way, it is not possible to set up a subprogram or activity that fails to contribute noticeably to the achievement of the indicator targets of the program or subprogram above it.

**National indicators**

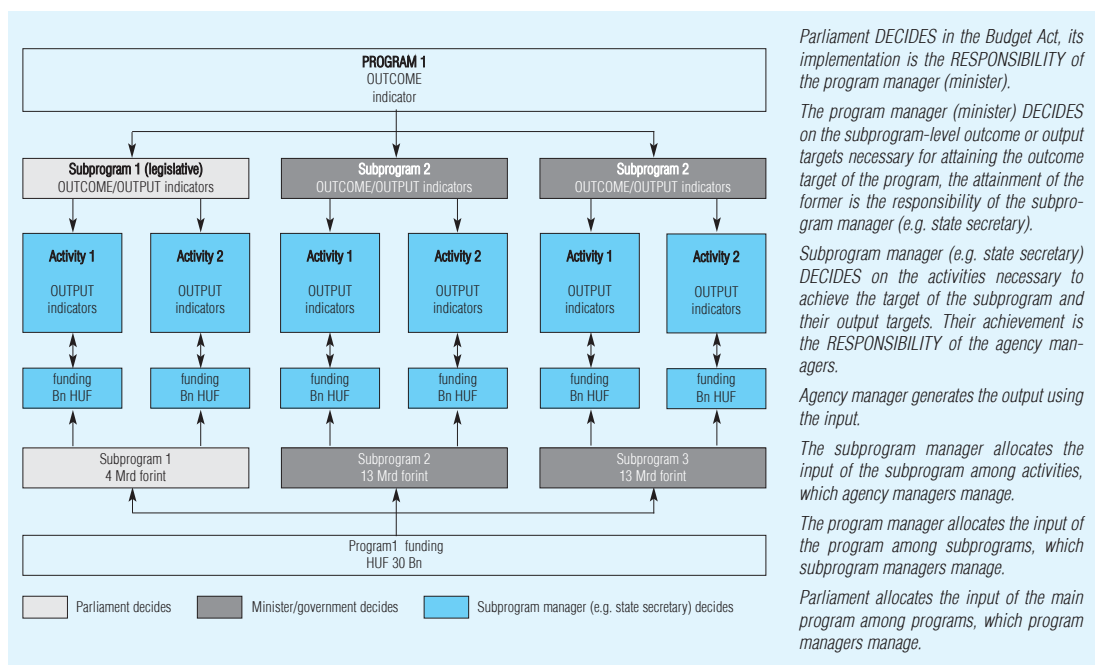
As national indicators help present the system of objectives which every program unit and expenditure serves to attain, their selection is particularly important.

One of the most important requirements regarding national indicators is stability, therefore their selection must be a one-off exercise rather than the subject of continuous bargaining. This is why we propose that once Parliament has determined, in an act, the full

list of indicators available for main programs, the replacement of a national indicator should only be proposed (or a new one added) if a sufficiently reliable and long (e.g. at least three-year) data series is available for the new indicator to serve as reference for the targets to be set. Naturally, Parliament may change the list of national indicators anytime but it would be desirable to see this happen only rarely. Furthermore, the government majority should not express its political priorities by changing the list of indicators but by altering their target values. Naturally, by selecting the indicators we do not predetermine the objectives of future governments because it is the specific indicator targets that matter on the level of government programs. In the reform of the budgeting system we merely determine the dimensions which governments can use to express their specific objectives easily, clearly and in a comparable manner.

One might ask why indicators are needed at the top level of the target hierarchy instead of

**PROGRAM STRUCTURE AND HIERARCHY OF INDICATORS**



just objectives without figures. This is because sooner or later someone will have to translate every public policy objective into program objectives, and if Parliament does not set specific and measurable targets for them, the actual political decisions will be made by program managers (or even lower level decision makers) as they will be the ones to select targets for their programs “arbitrarily” rather than deriving them from the main program objective. Thus concrete and measurable top-level objectives are needed in order to ensure that *policy objectives* are actually determined by Parliament.

For the selection of indicators recognised on the level of legislation (rather than used only in the internal management of institutions) we recommend the use of a *system of criteria* that contains minimum requirements and desirable qualities. Naturally, acceptable indicators must meet all minimum criteria and they must have a certain ratio of desirable qualities.

**PRINCIPLES OF THE SELECTION OF NATIONAL INDICATORS**

Minimum requirements may include the following:

- the indicator is not open to manipulation, its measuring methodology is simple, predetermined and public, its value can be audited based on the measurements taken by the SAO or, with the approval of the SAO, by another independent body (even an NGO);
- the indicator should have had at least two different values in the past 10 years (for instance, fortunately, the number of terrorist attacks per year is not a good indicator for Hungary at present);
- at least the approximate value of the indicator should be available for a certain point in time or period with not more than 6 months delay (or else it is not suitable for auditing and discussion in Parliament);
- it should be possible to influence the indicator value with the tools available under the program concerned in a single government cycle.

Desirable qualities may include the following:

- it should be interesting for politicians, its relevance and significance is clear, it contains meaningful additional information compared to other indicators;

- it has been regularly measured for some time by the HCSO or some other independent body (historical time series);
- it is internationally recognised and its value is known for a number of other countries as this enables the comparison of results with that of other countries;
- it has a low cost of measurement;
- it is based on the agreement of all stakeholders in the area;
- it gives feedback directly from the final beneficiary of the public service (which is important irrespective of whether the service is supplied by public or private entities).

Such indicators may include the index calculated from the results of an international PISA survey in the field of education, the annually published index of Transparency International in the field of corruption, or life expectancy at birth or the quality of life indicators of the UN in the field of the quality of life of individuals. We give further examples for possible national indicators in *Annex 2*; furthermore, it is worth looking at the collection of indicators titled “System of indicators of social progress”<sup>11</sup> compiled by the HCSO in cooperation with the Academy of Sciences under an OECD project.

We think that the number of national indicators can be much higher than that of indicators used by lower level program units. Their quantity may reach 50–100<sup>12</sup> as programs are easier to fit into the system this way. The reason is that it is easier to choose from a larger set a national indicator that the program at hand can affect either directly or through its own program indicator within foreseeable time. Therefore, the value of several national indicators in itself is not important for the country but it has a significant, though indirect and slowly unfolding effect on another indicator that is of interest in its own right. For instance, some indicators of the PISA survey measuring the academic achievement of students may be included among the national indicators because

high-quality education is one of the most important prerequisites of future economic growth; this correlation can be shown only in the longer term, therefore the quality of education programs cannot be measured directly through the GDP. Thus these indicators may be necessary as measures of the achievement of intermediate objectives.

Naturally, national indicators will include ones that are practically impossible to increase simultaneously – a *choice* must be made among them. One may think that the problem of indicators demanding a choice could be solved by applying composite indicators as they reflect several weighted considerations. It is important to see, however, that this would merely conceal the problem rather than solve it. The relative importance of the various considerations is the matter of value choice, and as such, it belongs to the political realm. Therefore, it would be an easy but inappropriate arrangement to replace the policy decision of Parliament with the “arbitrary” weights of a composite indicator. Essentially this is the reason for the high number of proposed national indicators; a larger number of individual indicators can express public policy objectives more clearly than a few composite indicators.

## MECHANISMS DRIVING THE PROPOSED BUDGETING SYSTEM:

### Establishment of the program structure and the hierarchy of indicators

We start from the assumption that the act laying down the result oriented budgeting system contains the list of main programs and national indicators; however, lower-level program units and the related indicators will be developed gradually, under a more decentralised arrangement. As there are areas within the performance of public functions where it is very

difficult, if not impossible, to find indicators that could capture adequately the success of the activity concerned, we must find a way to avoid forcing these areas into the framework of a result oriented budgeting system. However, as in many cases this issue cannot be decided centrally from the Ministry of Finance, a mechanism must be selected where the heads of the area concerned can make that decision.

Thus, we propose a *mixed system* which equally contains functions performed under the resource oriented institution system and under the result oriented, program-based system, and which is established pursuant to the voluntary decisions of the line ministries and agency managers. To this end, naturally, a system of incentives must be created to assure that line ministries correctly select the scope of tasks to be included in the result oriented system, and that only those agencies try to switch to the performance based system which perform functions appropriate for that system. Thus the proposed mixed system must rely on *self-selection*.

When the program is launched, all activities are on the institutional approach side and activities that can be meaningfully converted into programs may be moved into the result oriented system gradually, as decided voluntarily by the heads of the areas concerned. Ministers have the responsibility to propose programs and the related indicators, which, prior to their acceptance by Parliament, must be approved by the MoF so that ministers do not misunderstand the task of program creation and think that all they have to do is to regroup and re-label their usual expenditures. The first reformed areas will be the “pilot projects” which will thus select themselves for this task voluntarily. Their experiences can be used for fine-tuning the system. Over time, more and more public functions will be moved to the result oriented system; however, as explained above, the institutional and program oriented approaches will have to coexist

for a long time, probably indefinitely. The program manager ministers will also have to specify the objectives and indicators of (non-parliamentary) subprograms based on the objectives and indicators of the programs while the competent state secretaries will determine the objectives and indicators of the activities based on the subprograms.

After the first year or two, when a lot of programs and parliamentary subprograms are already running, the list of programs and parliamentary subprograms as well as the related indicators and responsible ministers will also be added to the substantive act that lays down the foundations of the result oriented budgeting system, just as the scope of responsibilities of the various ministers are defined in law now.

Simultaneously, performance contracts will be concluded with more and more agencies by managers on various levels of the program hierarchy (typically persons responsible for performance), thus the majority of agencies will make their performance measurable over time, taking responsibility for it.

### Presentation and accounting

The parliamentary presentation of the budget is the end and the means at the same time. In general, it is the reflection of the budgeting system, the primary form of announcing the fiscal decisions for the year and the framework of parliamentary discussion about fiscal policy. Transparency and credibility are compromised if policy discussions are conducted in a completely different conceptual framework than the one used in the act, or if the structure of the act is not in line with actual decision-making competences. Thus, when the new budget presentation is devised, our objective is not less than to assure that, as much as possible, both political debates and parliamentary decisions can be based on the categories of the budget act



as presented and published in the official gazette after voting.

As a set of rules, fiscal accounting determines how the various transactions affect the recorded value of resources used in specific areas and the entire budget balance. In most cases, the value of transactions is determined by accounting documents. Nevertheless, the Budget Act presented to Parliament functions as a *management information system* rather than financial statements in the accounting sense. Accordingly, decision makers (in this case, members of Parliament) can determine at their discretion what indicators they want to base their decisions on. Within the limits of reasonability, Parliament is free to decide whether it wants to see the maintenance costs of a public building under the costs of state property maintenance or under the costs of providing the public function accommodated in the building. However, such presentation decisions will clearly affect the comparability of various alternative arrangements and even the contents of policy decisions.

**Presentation**

**PRINCIPLES OF THE DESIGN OF BUDGET PRESENTATION**

- ▶ Both political debates and parliamentary decisions should be based on the categories of the Budget Act as presented and published in the official gazette.
- ▶ The Budget Act should reflect a functional breakdown as opposed to the current institutional structure .
- ▶ Parliament should decide about the very figures and limits that can really be decided in the framework of the budget debate and which neither line ministers nor the government may change during implementation.
- ▶ In the budget presentation, programs should not be grouped per minister.

As a precondition of harmonising political decisions and presentation, the budget act should be prepared in a functional breakdown<sup>13</sup>

rather than along the present institutional structure. Hopefully, in policy-level debates it is much more important to see how much we spend on education or health care than the amount of transfers given, for instance, to (unspecified) non-profit organisations subordinated to the Ministry of the Economy.

As a second precondition, Parliament should decide about the very figures and limits that can really be decided in the framework of the budget debate and which neither line ministers nor the government may change during implementation. For comparison, we note that at present Hungarian budgeting documents are full of appropriations that are either decided on by Parliament outside the framework of the Budget Act or which are actually decided on elsewhere. The former are the so-called mandatory items<sup>14</sup> which are specified by sector-specific legislation (e.g., pension expenditures) and thus in theory it would be sufficient to include them in an informative annex instead of a legal annex. As to the purchase of goods and services by institutions, the final decision is not made by Parliament as during implementation lower level decisions makers are free to change the values specified in the Budget Act. Thus the objective is to have much fewer figures for Parliament to decide on but those decisions should represent real constraints during implementation.

Even though program managers are ministers and a minister is almost certain to supervise more than one program, the grouping of programs per minister should definitely be avoided in budget presentation. Though international experience confirms the expectation that the battle for funds will be fought between politicians first (particularly “strong” politicians) rather than programs, and programs under the same minister will only start competing afterwards,<sup>15</sup> we still think that classification per minister would send the wrong message and it would also undermine transparency

in the event of a government reshuffle. It is important that the presentation should be program-oriented rather than institution (ministry) oriented because on the one hand, the program approach should be reinforced,<sup>16</sup> and on the other hand, performance indicators should form an integral part of the plans and these obviously cannot be added up minister by minister.

The envisaged table of content of the budget bill is presented in *Annex 4*, here only some of the annexes to the bill are discussed in detail.

*Annex 1 contains the funds allocated to the main programs, programs and parliamentary subprograms.* Even though in the case of mandatory items actual decision on the funds is made when the substantive legislation is approved rather than during the budget debate, we still recommend that they are also included in the program structure as they contribute to the achievement of objectives just as discretionary items do. We consider it important that the program structure be stable and transparent, that is, apart from the addition of more program units for a while as the system is built up, the structure of existing program units should not be changed too often. Therefore in the hopefully increasingly infrequent cases when seeking to favour his constituency, some politician insists on the inclusion of some project of immaterial size on the national level (e.g., a ring road) in the budget act itself, this should be possible without upsetting the program structure. The most obvious way to assure this is for Parliament to incorporate any provision beyond the level of detail of the program structure in the text of the legislation, outside *Annex 1*. The amount spent on activities not yet converted into programs is included in the “off-program expenditures” line, broken down by responsible minister to separate scopes of responsibility. This does not mean that Parliament has no power to determine more precisely the way these funds are used, as it can

set any requirement for the government in this respect in the text of the Budget Act.

Furthermore, the *detailed budgets of the program units belonging to Parliament* (the Politics, Legislation and Parliamentary control main programs as well as the related program units) *will also be disclosed in legal annexes in a result oriented approach, broken down by program unit, as well as the detailed breakdown of off-program expenditures belonging to Parliament.*

The breakdown of budget items in any other structure can be present in the form of *informative annexes*, e.g. the amount of funds spent on various groups of society or the economic breakdown of budget items. The latter should certainly be available during the budgeting process as the relatively accurate knowledge of the wage expenditures of the government is indispensable for generating the macroeconomic baseline projection necessary for planning, and it is also imperative to be able to carry the effects of a tax rate through the expenditures of public institutions. Thus this information must be available, but the decision by Parliament on the budget must be adopted in a different cross-section because the real policy decision is not whether to finance wage or operating expenditures but which objectives should be achieved using the funds.

A separate volume would contain the *data sheets* belonging to the various program units, in a uniform format, which would contain the name of the program unit, the manager, the start time and in case of finite program units also the end time of the program unit, the past and future, actual and target values of the performance indicators selected for the program unit. In addition, the data sheets would contain a brief description of what the expenditure budget of the program unit would be spent on.

Naturally, to assure consistent fiscal discipline and efficiency, medium term budget plans and the commitment limit system must also be prepared in the new program-oriented structure.

### *Accounting system*

Measuring the efficiency of the performance of public functions requires the calculation of the cost of performing each function. In the textbook form of the result oriented budgeting system, this is assured by accrual based fiscal accounting. However, we do not attempt to introduce an accrual based budget; in our proposal the budget (and the final accounts) would continue to be made on an *adjusted cash basis*. We propose that costs are disclosed more accurately than at present by using, instead of accounting adjustments, an *internal pricing system* designed on the level of institutions and programs that will assure that the data calculated on an adjusted cash basis and accrual basis are not substantively different on the program and institution level. Such arrangement can be used, for example, in the form of intercompany rent for real property used by public institutions (the fee charged by the state asset manager would be borne by the program unit) or in the form of a guarantee fee for most part of government guarantees and sureties (e.g. a guarantee for exhibitions is obviously linked with culture). Clarity is also improved if the purpose of the various tax expenditures is made clear by linking them to program units.

### *Special areas*

As discussed earlier, public expenditures include items that are certainly necessary but cannot be linked to well-defined social objectives that could be measured with indicators. One obvious and, in terms of volume, significant example is interest paid on public debt. Interest payment undoubtedly has a purpose, as this is how the bankruptcy of the state is avoided and its access to international financial markets is maintained, but bankruptcy as an indicator clearly fails to meet the requirements set for national indicators. The situation is similar with fees payable to the EU or other inter-

national organisations, the operation of the Treasury or the costs of tax collection. It is advisable to put all these expenditures that serve the interest of the state into a single common main program (called "*Financing*"), and accept the fact that relatively few programs would emerge in this main program.<sup>18</sup> This main program will also host expenditures that have mixed economic and social objectives but under the present regulations and accounting systems we are unable to break them down by objective. Examples include sureties, debt assumption, or even the part of the PIT transferred to local governments as normative grants, as normative grants to local governments typically fail to cover the total cost of performing the function concerned and local governments are not obliged to spend the entire amount on the designated purposes, therefore such sums cannot be linked unambiguously to specific tasks.

Another special area is *state governance*. The effectiveness of the work of the legislative or executive powers is extremely difficult to measure with indicators. One possibility is to use broader outcome indicators, for example, if we were to measure the success of the policies of Parliament and the government with GDP growth. The only type of indicator that can be used for this purpose would be based on opinion polls (e.g., the question by Eurobarometer: To what extent do you trust the following institutions: Parliament, government, trade unions, political parties, army, jurisprudence/Hungarian legal system, police, media?); however, albeit important and they must be measured and monitored, these questions can grasp only a very narrow and subjective section of performance. As these institutions are also monopolies in their respective fields (as opposed to most service providers, such as hospitals), not only the identification of the indicator but also the selection of a target value would present difficulties in the absence

of a benchmark. (Even though in certain cases the performance of similar institutions in other Member States could be used as a basis when setting the targets.) In our proposed system this means that the effectiveness of these functions can be measured only at the level of national indicators – and not only on the level of a few selected national indicators as in the case of the other main programs but by the development of all national indicators in combination, as this is where all regulatory and key fund allocation issues are determined, thus they affect the development of every national indicator. Therefore we propose that the work of the government is put in a separate “*Executive power*” main program, other expenditures directly linked with state governance, for instance to the legislative power, in “*Legislation*”, and extra-parliamentary political activities (e.g., political parties) into the “*Politics*” main program, while the expenditures of controlling all of the above would go into a “*Parliamentary control*” main program. These main programs do not need be broken down to programs; instead, all related expenditures will be “off-program expenditures” and their detailed allocation will be decided on by the main program manager, i.e. the government for the “Executive power” main program, and Parliament for the “Politics”, “Legislation” and “Parliamentary control” main programs. The common expenditure budget for the operation of ministries must also be specified within the “Executive power” main program. (See Chart 5)

Among special areas, mention should be made of the *budgetary institutions that the government has little or no control over*. We propose to elevate all of these to the level of parliamentary subprogram so that their budgets can be decided by Parliament and the agency manager himself can be the subprogram manager. (Examples may include the Hungarian Competition Office, the HFSA, the Office of the Fiscal Council, etc.)

## Decision-making competences and system of incentives

### *Decision-making powers*

#### **PRINCIPLES OF ALLOCATING DECISION-MAKING POWERS**

- ▶ Everyone should be responsible for things that they can substantively control.
- ▶ The consistency of decision-making powers and accountability must be assured, i.e., the broadening of decision-making powers must go hand in hand with the strengthening of accountability.
- ▶ The decision-making powers of the legislative and executive branches must be clearly separated.
- ▶ It should be noted that state secretaries, heads of department and their subordinates cannot take political responsibility towards voters.
- ▶ The same decision maker should decide about the expenditure and commitment budgets and indicator targets of the various program units.
- ▶ Consistency must be assured between the legal and budgetary status (level of independence) of public institutions.

As discussed earlier, one natural consequence of the result oriented budgeting system is *decentralisation*, that is, the delegation of decisions to a lower level while assuring accountability. Managers on different levels must convey the targets and indicators (performance information) to lower levels and also enforce the expenditure and commitment budgets (financial constraints). This is conditional on the transparent presentation of targets and budgets as well as the clear (but not excessive) regulation of the allocation of targets and budgets on all levels of the program hierarchy.

As seen in the above description of presentation, the Budget Act determines the funds and the targets of performance indicators only on the level of programs and parliamentary subprograms, while the data sheets of lower levels, i.e. non-parliamentary subprograms and activi-

Chart 5

**MAIN PROGRAMS IN STATE GOVERNANCE**

<p><b>Politics Parliamentary control</b>  <i>Office of the President of the Republic</i>  <i>Protocol expenditures of the President of the Republic</i>  <i>State awards</i>  <i>Subsidies to political parties</i>  <i>National elections and referenda</i></p> <p><b>Legislation</b>  <i>Remuneration of members of the EP</i>  <i>Office of Parliament</i>  <i>Constitutional Court</i></p>	<p><b>Parliamentary control</b>  <i>Ombudsmen</i>  <i>State Audit Office</i>  <i>Fiscal Council</i></p> <p><b>Executive power</b>  <i>Remuneration of high state officials</i>  <i>Current expenditures of ministries</i>  <i>Government HR</i>  <i>Government control</i></p>
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ties are not incorporated in the Budget Act; that information must be published in decrees. The funds, targets and indicators of non-parliamentary subprograms as well as additional information relating to “other” expenditures not linked to programs are regulated in government decrees to be drafted by the government after the budget bill is approved. The funds and indicators linked to activities must be disclosed in ministerial decrees. (See Chart 6)

**System of incentives**

In the result oriented budgeting system, not only the available budget is allocated to every public function but also the related objective to be attained, expressed by performance indicators. Ideally, the assessment of the success of program units directly follows from this: if a program unit achieves the indicator target set for it, it is successful, if not, it is unsuccessful. Thus the heads of program units, the institutions and staff performing the functions must be urged to reach or at least approach the target values of the indicators.

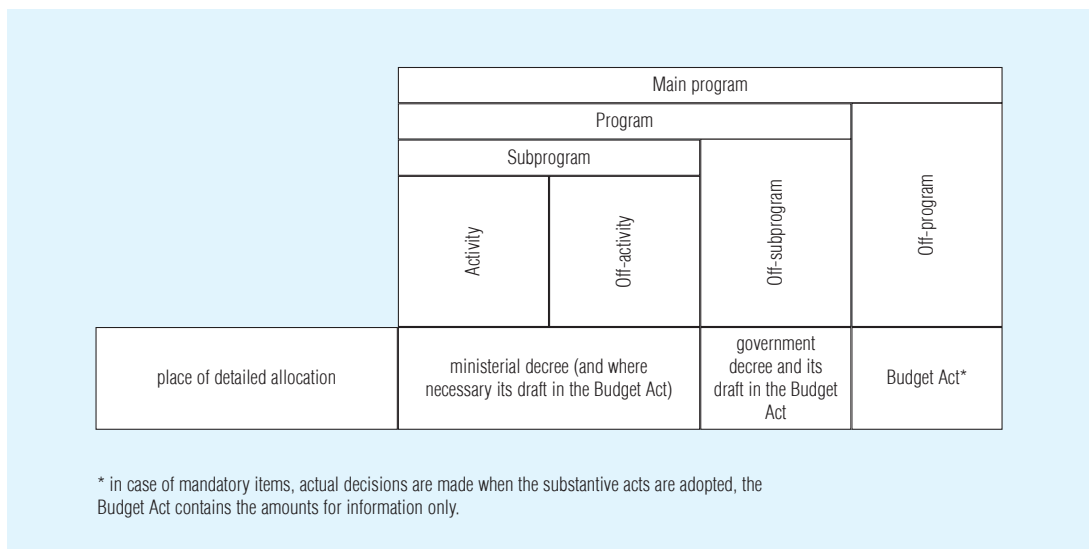
Based on the above, it seems natural to base the incentive system of the actors, both individuals and institutions, in the performance of public functions on the values of indicators achieved by the relevant program units. In reality, however, there are several problems that

would make such simplification of the system impracticable.

On the one hand, if the indicator is measured by the institution itself, it will be tempted to round results in the direction favourable to it and to make them look as good as possible. This problem is solved if the indicators are *audited* by an external body, in our proposal the SAO, which could guarantee the reliability of data.

There is a more difficult problem: the indicators are unable to grasp fully the quality and quantity of services supplied by the state even in public function areas that are the easiest to measure. Therefore it is undesirable that actors blindly do, without taking anything else into consideration, what is most efficient for meeting the target set for them because this way they could easily lose sight of actual objectives while maximising imperfect indicators. Furthermore, in the overwhelming majority of cases, the development of (particularly outcome type) indicators depends not only on decision makers and staff but also on a number of external factors beyond the control of these actors. Accordingly, we do *not propose the establishment of a strict, function-like link between the target value of indicators and the remuneration of decision makers or persons performing the functions.* In effect, incentives should be based on the

**LEGISLATIVE INSTRUMENTS OF THE DETAILED ALLOCATION OF FUNDS**



effectiveness of the relevant program units, but this effectiveness should be assessed in a more complex manner rather than being based simply on the value of the indicators.

In addition to enforcing *efficiency*, the introduction of the self-selection based system sets another objective for the incentive system: to create incentives that will maximise the number of managers of suitable program units who join the result oriented system and to make as many agency managers as possible enter into performance contracts with them.<sup>19</sup> There are two fundamental approaches to *stimulating accession* to the result oriented system: this decision can be rewarded by one-off, direct measures, or the reward may be the fact itself that from that point on the decision maker would be subjected to the rules effective within the result oriented system which are more favourable to him instead of the rules applicable outside the result oriented system. It may also be an incentive if the entire institution is given some benefit if they switch, but we may have to link the remuneration or career prospects of the managers or staff of the agency or program unit to the accomplishment of objectives.

For the sake of brevity we do not discuss the details of the design of the individual-level incentive system, we merely list the principles that we propose to take into account in the design of the system. We should emphasize, however, that *the allocation of public funds to the various objectives, i.e., public functions must not be used as an incentive*, that is, a main program must not be given more funding just because its managers are better than average.

**PRINCIPLES OF THE DESIGN OF THE INDIVIDUAL-LEVEL INCENTIVE SYSTEM**

- ▶ The operation of the institution should not cost (considerably) more than what it would cost without system introduction, that is, the bonus budget must not grow (significantly) in parallel with the increasing number of institutions that join the system.
- ▶ The incentives of actors should not be dependent on events beyond their control.
- ▶ Everyone should be rewarded based mainly on their own work, that is, persons doing their job well should not be deprived of their bonuses because of the bad decisions of their superiors.



- ▶ The incentives of subordinates should be decided on by their superiors. Decisions on rewarding should not be made centrally or in a centrally decided manner or based on strictly defined formulae.
- ▶ We do not recommend the systemic use of disincentives, especially not through automatism.
- ▶ The system should lend itself to credible operation (e.g., the reward should not frequently depart in any direction from the level determined in advance based on performance).
- ▶ The margin of discretion of agency managers must not be reduced significantly below the current level; instead, it should increase in parallel with accountability.

We recommend the use of positive incentives also on the institutional level because disincentives would run into severe difficulties as most public functions are not performed by competing institutions, thus “terminating the agreement” would mean dispensing with the performance of the public function. One possible disincentive is “naming and shaming”, which means the naming of institutions not performing sufficiently or not joining the result oriented system and their exposure in a “hall of shame”.

We propose the introduction of a separate mechanism to encourage joining the result oriented system. All funds that are not part of any program are presented within the various main programs under the heading “off-program expenditures”, summarised by main program. The objective is to minimize the total sum of off-program expenditure items, but it is not realistic to expect them to disappear completely. Regarding the various main programs, the incentive system should assure that all potential program managers (ministers) have an interest in removing as many programs from the “off-program expenditures” category as possible. Thus, to turn a function into a program, incentives must be provided both to the new program and to those remaining in the “off-program expenditures” category, while the absence of program creation should not yield short term benefits to any participant.

As a relatively simple rule, it could be stated (not necessarily in an act, perhaps on the level of a government program) that in the first few fiscal years after introduction, the additional margin of discretion available as compared to the previous years (in respect of discretionary items) must be allocated in a way that 80% should go to the programs, 15% could be distributed among the “off-program expenditures” categories below the main programs and the remaining 5% could be spent on the new programs recently removed from the “off-program expenditures” category.<sup>20</sup> Obviously, in this system both the suppliers of functions remaining in the “off-program expenditures” category and the managers of new programs fare well with the formation of a program, as the former will have to share the extra amount with fewer peers while the new program may partake of the budget allocated to new programs. Thus the size of off-program, discretionary expenditure categories will shrink year by year as compared to the total budget. If the staff of ministries want to avoid the contraction of funds they can allocate,<sup>21</sup> they will gradually include into the result oriented system all their activities that can be converted meaningfully into programs.

Apart from incentives, there is another argument for *reducing the ratio of funds available for off-program expenditure categories*. The objective of increasing the efficiency of public functions can be achieved through stepping up the target performance of activities with measurable performance, while in areas without measurable performance, we can require only the cutting of expenditures rather than the increasing of results, thus in these fields efficiency increase can be enforced through this means. This reasoning assumes that there is unexploited room today for efficiency increase in any section of public functions and that this room is similar in magnitude to the envisaged programs. If it was not so, neither the performance increase without input expansion as expected



in the case of measurable functions nor the input reduction without performance deterioration as expected in the case of non-measurable functions could be achieved. On the other hand, we think that the programs encompass a sufficiently broad area so that each has some room for efficiency increase somewhere. (For example, in the Dutch system, the baseline only allows the maintenance of the real value of expenditures and not their increase in the operating areas. Taking into account the fact that public and private sector wages grow at the same rate there, this approach forces the achievement of a kind of efficiency gain.)

In addition to expenditure budgets, the establishment of *commitment limits* may also be a tool to encourage participation in the result oriented system. It may be required, for instance, that outside the result oriented system, commitments for more than three years can only be undertaken without special political authorization if the potential costs of early contract termination can be covered by the institution from its own expenditure budget.

Table 4 summarizes the listed categories of the potential incentives.

### Program review cycle

Programs may be evaluated *on several levels*. In the proposed system, the efficiency of programs is most frequently controlled by the program manager minister, who can have his own internal control unit review the programs at any time, making sure that deficiencies are not detected only in the assessment performed by external actors. Thus potential errors can be corrected in time, without losing face.

The next level of evaluation is the joint assessment of the competent department of the MoF and the competent line ministry, conducted each year for each program and each parliamentary subprogram. This annual assessment does not cover all details but it definitely includes the presentation of the development

of performance indicators. In case of finite parliamentary subprograms, in addition to *the regular annual assessments*, the government also conducts a more in-depth *interim assessment* on one occasion, with an eye to ensuring that any poor results are detected before the completion of the finite subprogram and errors can be corrected with a course adjustment. The program sponsor has the responsibility to propose, when the subprogram is launched, a date for the interim assessment and the target indicator value to be attained by that time.

#### STEPS OF THE BUDGET PLANNING PROCESS

In the present Hungarian system the government stage of the budget planning process has the following main steps:

- 1 Based on medium-term baseline projection, fiscal rules, most recent macroeconomic forecasts and proposed revenue side measures, the Ministry of Finance calculates the margin of discretion available next year.
- 2 Based on the three-year expenditure plans already available (and published in a government resolution) and on the margin of discretion, line ministries receive their budget figures.
- 3 Based on their budget figures, line ministries prepare their detailed plans (allocation of the budget) and send them to the MoF together with any additional requirements.
- 4 Budget bargaining within the government (first with the MoF, then, if necessary, with the Prime Minister).
- 5 The government decides on the submission of the document to Parliament.

As Parliament is not in a position to evaluate every parliamentary program unit each year, it is convenient to introduce a *rotation system*, under which Parliament evaluates permanent programs regularly at predefined intervals that is different from program to program, and evaluates finite parliamentary subprograms upon completion. Like the final accounts, the proposal for the assessment (which is the basis for the parliamentary review that is more in-depth and thorough than the annual program assessment) is presented by the government and the

Table 4

INCENTIVES		
	Efficiency in the result oriented system	Conversion
<b>INSTITUTIONAL LEVEL</b>		
policy makers	• "hall of fame", "hall of shame"	<ul style="list-style-type: none"> <li>• reduced margin of discretion for off-program expenditures</li> <li>• limitation of commitments outside programs</li> <li>• "hall of shame"</li> </ul>
institution	• performance contracts	• greater management margin of discretion
<b>INDIVIDUAL LEVEL</b>		
policy makers	• staff in successful program units receive higher bonuses	
institution	• performance-related bonus, career opportunities	• greater management margin of discretion for leaders

SAO also comments on it. Due to the purpose and nature of the program review system, it is not linked to calendar (fiscal) years, thus the related parliamentary debates should not be timed to coincide with the busy time of the budget debate in the autumn. It is much better if the discussion of the programs tabled in the particular year as defined in advance in the medium term timetable takes place in the spring session, allowing the government to reflect on the conclusions from the assessments in the budget bill it presents. As an exception, the evaluation of finite subprograms should be left to the autumn session as long as Parliament also approves the final accounts at that time, as under this arrangement assessment cannot be moved to the previous or the following spring. It cannot be done earlier because audited figures may not be available, and debate makes little sense later, after the final account is accepted.

The program evaluation mechanism should be designed in a way which ensures that negative assessments prompt program managers to improve their performance and, if required, to implement the necessary changes as opposed to defending themselves and deflecting their liability. One possible way of implementing this approach is if the review body within the gov-

ernment communicates in advance the result of the assessment to the program manager minister, who is thereby given an opportunity to come up with concrete proposals to improve the performance of the program by the time the negative assessment becomes public.<sup>22</sup>

The efficiency of the program review system can be greatly enhanced if a member of Parliament who is an expert of the program concerned is assigned to each program (modelled after the French "rapporteur") and who monitors the program on an ongoing basis. Furthermore, the program approach may be strengthened if NGOs are also given a role in the review system, for instance through the independent auditing of indicators, because these bodies clearly focus on specific causes or objectives rather than individual institutions and thereby they can help shaping the direction of public discourse as well.

### CONDITIONS OF THE INTRODUCTION AND OPERATION OF THE PROPOSED BUDGETING SYSTEM

One pillar of the result oriented budgeting system is the delegation of some of the technical

decisions to a lower level. This requires professional civil service staff, the efficient and independent auditing of performance indicators, functioning ethical rules, freedom of information, as well as a predictable fiscal policy (Kim et al, 2005).

In view of the current situation in Hungary, we should particularly emphasise the necessity of *predictable fiscal policy*. Managerial decisions cannot be delegated in a situation where from time to time fiscal imbalances require expenditure cuts during the year because lower level decision makers can only make use of their extended decision-making powers efficiently and without jeopardising fiscal targets if the conditions set for them are not changed subsequently, after strategy building and implementation has started. Non-credible fiscal policy that relies on austerity campaign not only creates an insecure environment for decision makers but it also changes motivations. Encouraging line ministries to cut costs is a good example. As it is mostly line ministries that know where substantive savings can be achieved, the MoF wants to encourage them to identify these potential savings. Line ministries, on the other hand, know that if they disclose disposable funds, the MoF, irrespective of former promises, would take these sums away from them to reduce the deficit. As the ministries take this into account in advance, such incentive-based, rather than across-the-board system can only be introduced credibly when the deficit problem is gone. Due to this, one of the key preconditions for the introduction of the result oriented budgeting system is the achievement and maintenance of macroeconomic stability and fiscal discipline.

Another important prerequisite is the *commitment of the government and the ministers to change*, in the absence of which the introduction of the system would be doomed to almost certain failure.<sup>23</sup>

The overall picture drawn from international literature suggests that in countries with result oriented budgeting systems the allocation of public funds is more efficient and transparent as evidenced by empirical experience, fiscal policy tends to be more predictable, information flows more freely, civil servants are more efficient and better qualified and technical issues are decided on at the expert level. The causal relationship is not always clear between these features; nevertheless, we consider that if the conditions listed at the beginning of this section are met, the introduction of a result oriented budgeting system would certainly take Hungary closer to other desirable objectives as well.

The first step of this transition can be the publication of the currently available performance information (e.g. effectiveness of hospital procedures) in a systematic format, possibly accompanied by explanatory analyses. The *training of the required staff* necessary for the operation of the result oriented budgeting system, i.e. the provision of information and training programs for the future operators and actors of the system must also be among the first steps. The elaboration of the details of legal regulations may run simultaneously with this, followed by the launch of the first programs (“pilot projects”). On the whole, the process would take approximately three years from the concept design to full-scale launch, when programs could be started simultaneously in a significant part of public functions.

The example of other countries (e.g. the US) raises the question whether the centre of operation of the result oriented budgeting system should be in the MoF or in the Prime Minister's Office (PMO). The PMO has the advantage that it is easier to accept as a “superior”. On the other hand, it is desirable for line ministries to discuss programs with the MoF as they are the ones ministries want to convince most about the soundness of their funding requests and the

MoF has the priority of keeping financial processes under control. Therefore, in most countries the Minister of Finance is the person who has a vested interest in the introduction of the result oriented budgeting system, with the only exception of cases where the Prime Minister treats this project as a high priority and thus personally monitors implementation. On the whole, we recommend that the task of the MoF should be to assure compliance with the fiscal system while the PMO should assure compliance with policy objectives.

In the longer term, it is not necessarily worth introducing a separate efficiency unit in each ministry, but in the first 2-3 years, in the phase of the establishment of the basic system, a team of experts with special knowledge and personal commitment to the cause is essential in every policy area and this team should function as a partner to the central MoF unit. Among international examples, mention should be made of Italy and the US. Italy has been working on the introduction of program budgeting since 2007. Based on their experience, they attribute a key role to the line ministries as partners. The PART (Program Assessment Rating Tool) that has been in operation in the United States for years subjects the launching and assessment of programs to discussions between the unit of the presidential administration responsible for the budget (Office of Management and Budget, OMB) and the line ministry staff. The operation of the entire system (including the assessment of the work of the OMB) is supervised by the Government Accountability Office on behalf of Congress.

In addition to establishing *units that are responsible for the introduction of the result oriented system* in the ministries and in particular in the MoF, the overall organisation of the MoF must be changed. This proved to be a stumbling block for reforms in several countries (e.g., Italy, Lithuania), but the reform can-

not be credibly rolled out to the entire central government unless the responsible entity is willing to change.

**KEY PRINCIPLES OF THE RESULT ORIENTED REFORM OF THE MINISTRY OF FINANCE**

- ▶ Separation of professional and organisational functions.
- ▶ Separation of the regulation of budgetary agencies and the annual fiscal budgeting decision on their funding.
- ▶ Separation of the control (regulation, supervision, etc.) of government programs and government agencies (primarily budgetary institutions).
- ▶ Equality and comparability of the various organisational arrangements employed for the performance of public functions.
- ▶ Assuring the equality and comparability of the various forms of funding public functions.
- ▶ Reinforcement of the consistency of macroeconomic and fiscal plans and forecasts.
- ▶ Reinforcement of fiscal analysis and system development.

At present, in most cases the regulation of a specific area and the management of their current financial issues belong to the same organisation unit within the MoF. These two functions should be separated to some extent in organisational terms as well in order to reduce temptation for addressing short term financial issues with regulatory amendments. If rules are changed all the time, after a while the incorrectly accepted rules also call for repeated regulatory changes, annihilating the tracking, functioning and transparency of rules and making them partly unenforceable. Clearly, it is important for legislators to be familiar with the activities of bodies to be regulated but in our opinion this should not be achieved by delegating the allocation of funds to the regulatory department. Instead, the regulatory department should employ persons who used to work in the specific policy areas for years.

What would be an important objective upon

setting the budgets and modes of implementation of programs is to expand the role of targets and decrease that of the service providing organisations compared to the present system. The same public service can be provided through central budgetary institutions, local governments, state-owned companies, public trust funds, private-sector companies or even directly by the payment of targeted subsidies. As an interesting feature of the present departmental structure of the MoF, an education financing issue may belong to different departments depending on whether the school concerned is maintained by a local government, a foundation or a church. We think that more efficient arrangements could be devised in a number of areas if someone (e.g. the head of the competent department or state secretary) looked at the issues from this angle.

Similarly to the various ways of performing functions, the different forms of financing (debt issuance, international project borrowing, PPP, sovereign guarantee, etc.) are also completely fragmented across the organisation. It would be more appropriate to combine them in a financing division and assure their comparability.

## CLOSING THOUGHTS

In the proposed system, the functions performed by the state are organised in a hierarchical structure (program structure), with the program being the basic unit of the performance of public functions. Programs more or less correspond to the 100–150 permanent themes that are clearly visible in the present budget, from the operation of parliament through waste management and sports to health care and employment policy. Programs serving the achievement of similar objectives belong to the same main program. Subprograms can be created within programs, and activities within sub-

programs. Each program, subprogram and activity (program unit) has a single-person manager, who manages the funds allocated to him. There are objectives defined for each program unit, expressed in terms of indicators to measure and assess the success of the various program units. Thus, indicators, like program units, are organised into a hierarchy. Program unit managers may purchase services from public agencies, where the performance contract concluded with the agency manager specifies the quality and quantity of the expected service expressed in quantitative indicators as well as the performance related remuneration. The value of the indicators thus affects the remuneration of managers and the persons implementing the program unit concerned, thereby offering an incentive for efficiency. We should emphasize, however, that in our proposed system, in contrast with personal incentives, the allocation of funds between policy areas does not show a pre-determined mathematical relationship with the value of indicators, because in our opinion the funds should be allocated to specific social objectives along policy values rather than based on the achievements of managers in the different areas. On the other hand, the positive or negative changes of indicators may be the most important argument for the expansion, reorganisation or elimination of a program unit.

Even though there are areas and institutions for which it is possible to decide centrally (from the MoF) whether they are suitable for incorporation in the performance measurement system, this is not the case for every area. As due to the lack of technical competence the MoF is unable to decide about many areas and institutions whether they can be converted, this decision must be delegated to the line ministries and agency managers. Thus we propose to base the establishment of the system on the voluntary decision of ministers and agency managers. This means that once the first step

of converting clearly eligible fields into programs is ready, new programs can only be launched by the program manager ministers. In other words, the two systems will operate side by side: some functions will continue to be financed under the institutional approach while others will operate in the form of programs. Just like program managers, agency managers are not obliged to join the result oriented system either, i.e. they will not be required to conclude performance contracts. As the system is based on self-selection, with the ministers themselves deciding whether to form programs and agencies also deciding whether to conclude performance contracts for their functions, the related incentive system (besides fulfilling its primary purpose of promoting efficiency) must be suitable for making decision makers interested in joining the result oriented system.

The introduction of a result oriented budgeting system would not only mean technical modifications in the budgeting process but it would also bring on changes in the roles of participants and in the government model. In such a system, politicians decide about targets and the designated resources rather than balancing between institutions; they set objectives and experts devise alternative solutions for achieving them, then politicians choose between the alternatives, the implementation of which is again delegated to the expert level. This allocation of responsibilities can be in the interest of every participant. In addition to providing a more efficient and more transparent general government to citizens, the introduction of the program budgeting system would also allow Parliament and the government to make decisions more consciously, based on more and better structured information. All this enables them to achieve their objectives more effectively – be it policy objectives or the maximisation of votes. Furthermore, not only the probability of efficiency improving decisions is higher in a program based system, also accomplishments

can be communicated more efficiently as targets become visible, so will results. The opposition may also profit from the fact that political debates will become easier to understand and will relate to relevant issues. They will be better placed to put forward and justify proposals for changes as these proposals can be based on actual performance information. For good managers working in public administration, it may be attractive that their targets are objectively measurable; indeed, the jobs of public administration staff will become more meaningful as politicians define objectives and resources, while the means can be determined on lower levels and expectations are not changed again and again during implementation.

Even though the attempt to introduce certain elements of program budgeting was not successful in 2005 (see Adorján, 2009), it is far from inevitable that steps towards a result oriented budgeting are doomed to failure in Hungary. In our opinion, if the present proposal is introduced under the right external conditions, the repetition of the mistakes of 2005 can be avoided.

We think that the system we propose is better in several respects than the one tried out in 2005. On the one hand, it relies heavily on the voluntary decision of ministries, which induces improved cooperation between the MoF and line ministries. On the other hand, result orientation in the proposed system already appears on the level of main programs. Therefore, when the performance indicators of programs are assessed, a baseline exists that can be used for deciding which of the various programs with different goals contributed the most to the fulfilment of main program objectives. We also propose that cross-cutting programs are avoided; this can prevent a number of problems that plagued the experiment of 2005.

In addition to the qualities of the system to be introduced, external conditions are of decisive importance for success. These must be



more suitable than in 2005 regarding two aspects: First, predictable fiscal policy is an essential precondition to change as it ensures that the new system is primarily employed to raise awareness of political decisions and for the efficient use of the modest available manoeuvring room instead of becoming a mere

means of cost cutting; this factor will also reduce resistance to the system on the part of the ministries. Another essential prerequisite is political commitment to the introduction of the result oriented system which may help shift attention from competition between ministers to the choice between social objectives.

## NOTES

<sup>1</sup> Although "program budgeting" is the common term in technical literature, we consider "result oriented budgeting," which is also encountered, to be more expressive.

<sup>2</sup> It is a frequent concern in connection with the increased operating freedom of institutions that weakening direct control may increase propensity for corruption. This correlation, however, is far from clear-cut. In theory, mechanisms may be set up that cause an increase, or decrease, in the likelihood of corruption as a result of decentralisation (see Carbonara, 2000). This issue has not been subjected to empirical testing in the context of program budgeting systems but it has been tested in the context of the relationship of central and local governments; however, the outcome is not conclusive.

<sup>3</sup> In this respect, the most important difference is that the cash-based approach measures capital expenditure while the accrual-based approach measures depreciation.

<sup>4</sup> For more details on evidence-based policy making, see Scharle (2007).

<sup>5</sup> Here we disregard e.g. central banks which shape monetary policy.

<sup>6</sup> The example is based on Cseres-Gergely and Scharle (2010).

<sup>7</sup> In theory, the government may appoint one of the ministers to be the main manager but considering that in today's Hungarian public administration cooperation between ministries is not very strong, imposing a blanket requirement for adopting this arrangement does not seem appropriate. As another possibility, the manager may be one of the government's cabinets (e.g., economic, social policy, national security, etc.), but in legal terms this is not feasible

because cabinets cannot take over the responsibility for the decision from the government.

<sup>8</sup> Naturally, the costs of the subprogram are not the screenings themselves; those may remain part of the healthy lifestyle program, for instance; instead, they consist in the awareness raising campaign that the government uses to convince citizens to make regular attendance at screening part of their lifestyle.

<sup>9</sup> That is because subprograms may also include large investment projects that extend over several years. The results (outcome) of these projects may materialize only years after the completion and evaluation of the subprogram.

<sup>10</sup> Example based on Cseres-Gergely and Scharle (2010).

<sup>11</sup> <http://portal.ksh.hu/pls/ksh/docs/hun/thm/index.html>

<sup>12</sup> In the Canadian system that served as one of the models for our proposed program structure, the entire budget is organised under as few as 29 "top indicators".

<sup>13</sup> The functional breakdown means classification by the functions performed by the state, e.g. health care, education, defence, etc. An example for an internationally accepted functional classification system is COFOG.

<sup>14</sup> The definition of mandatory items is given in Section 3 of the Public Finance Act. Mandatory items are primary budgetary items the development of which is clearly defined by the substantive legislation and the trends in the private economy and in demography. Examples include tax revenues or, for example, pension expenditures. For instance, annual VAT revenues are determined by the VAT act and



economic developments, and pension expenditures by the pension act as well as the number and contribution history of retiring persons, rather than any decision taken by Parliament during the budget debate.

<sup>15</sup> Expert remember that when, for example, French president Nicolas Sarkozy was Minister of the Interior in the Villepin government but he was already suspected to run for president, in the budget debates within the government the question was not how much should be spent on e.g. law enforcement but rather how much Sarkozy would get, which amount he could then further allocate to his own programs at his discretion.

<sup>16</sup> It is also better for influencing public discussion if the media, despite its general inclination, analyses which area, rather than which politician, fared well or poorly in the budget debate.

<sup>17</sup> Despite the fact that we would also like to show mandatory items in the legislative annex to the Budget Act, we think that the amendment of the values of these items should be initiated only by the budget committee of Parliament. That is because Parliament makes no effective decision about these figures during the voting on the Budget Bill, it merely acknowledges the forecasts of their development.

<sup>18</sup> Naturally, this does not mean that such items would not contribute to improving certain national indicators or that lower level indicators could not be set for the various institutions - for instance, the amount of tax collected for the Hungarian Tax Authority. (The amount of tax collected is clearly not an indicator the increase of which could be set as a national objective. Nevertheless, just because the government and Parliament must not be encouraged to maximise taxes, this could be, and already is, a perfect objective for the tax authority, which does not make the tax code, it merely controls its implementation.)

<sup>19</sup> The system must be designed so that both options offered to the actors (i.e. joining the result oriented system or remaining outside) have advantages and

disadvantages for them. The idea behind self-selection is that those should choose a specific category for whom the advantages of the category concerned are important and the disadvantages are not too troubling, which clearly makes no sense if one option has only advantages over the other for all decision makers.

<sup>20</sup> For example, in a year when the additional fiscal margin of discretion available for discretionary expenditures resulting from fiscal rules (the real debt rule and the expenditure ceiling) is HUF 500 billion, only 75 billion could be spent on functions not linked to the result oriented system, 400 billion could be spent within the result oriented system and the remaining 25 billion could be used to "reward" new programs. Naturally, the 80%-15%-5% distribution is meant as an example only; when determining the actual percentages, the percentage of expenditures belonging to areas within the result oriented system must be taken into consideration and probably the ratios will have to be changed over time.

<sup>21</sup> The limitation of the budget for the "off-program expenditures" category also puts strong pressure towards the conversion of the related activities into programs. The reason is that the ratio of downward inflexible wage expenditures is higher than average in the resource oriented areas that are ill-fitted for the result oriented system.

<sup>22</sup> Another option would be to stay away from publishing the results of the first assessment and publish only that of the repeated review which is conducted after the adjustment measures of the program manager minister have been taken; this solution, however, would increase the temptation on the program manager minister to attempt to get away from responsibility by reorganisation that affects the indicator targets following an unfavourable preliminary assessment.

<sup>23</sup> In France, Sarkozy, as interior minister, visited more than 1000 police stations to promote and explain the changes relating to the LOLF (Loi organique relative aux lois de finances), i.e. the new, program-based budgeting system.

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**PROGRAM STRUCTURE - STARTING POINT FOR THE DISCUSSION OF THE INTRODUCTION OF THE SYSTEM**

<p><b>POLITICS</b> Office of the President of the Republic Protocol expenditures of the President of the Republic State awards Subsidies to political parties National elections and referenda</p> <p><b>LEGISLATION</b> Remuneration of members of the EP Office of Parliament Constitutional Court</p> <p><b>PARLIAMENTARY CONTROL</b> Ombudsmen State Audit Office Fiscal Council</p> <p><b>EXECUTIVE POWER</b> Remuneration of high state officials Current expenditures of ministries Government HR Government control</p> <p><b>FOREIGN AND SECURITY POLICY</b> Hungary in the European Union Hungary in the world International development cooperation Hungarians outside Hungary Crisis man. and peace operations units Territorial defence of Hungary Military technology Miklós Zrínyi Defence University Secret services Military national security services National security offices</p> <p><b>GENERAL LAW ENFORCEMENT</b> Court Courts Prosecution services Prosecution service of the Republic of Hungary Military prosecution services Central Office of Justice Judicial expert institutes</p> <p><b>LAW ENFORCEMENT</b> Public security</p>	<p>Police Crime prevention Prison administration Civil defence Aliens policing Office of Immigration and Nationality Police College</p> <p><b>STATISTICS</b> HCSO</p> <p><b>MARKET SURVEILLANCE</b> Consumer protection Hungarian Competition Office Patents Standards Commercial licensing Land registry offices HFSA Health insurance supervision Food safety National Public Health and Medical Officer Service National Institute of Pharmacy</p> <p><b>RESEARCH, DEVELOPMENT, INNOVATION</b> Fundamental research Applied research Remuneration of academicians</p> <p><b>INFRASTRUCTURE DEVELOPMENT AND INVESTMENT PROMOTION</b> Infrastructure development Transport Communication and information technology Media subsidies Meteorology Investment promotion Promoting small and medium sized enterprises</p> <p><b>ENERGY POLICY</b> National nuclear energy office Mining and quarrying</p> <p><b>ENVIRONMENTAL PROTECTION</b> Waste management Nuclear waste management Soil protection</p>	<p>Water protection Air protection Soil protection Active climate policy Sustainable transport (BKV, MÁV, Volán public utility and dev. expenditure) Sustainable energy policy Adaptive climate policy</p> <p><b>REGIONAL POLICY AND RURAL DEVELOPMENT</b> Agricultural production Promotion of the operation of agricultural markets Agricultural subsidies Tourism</p> <p><b>FINANCING</b> Interest, recovery of principal, debt and receivable man., in central budget State property related expenditure Hungarian State Treasury Tax collection (Hungarian Tax Authority, Customs and Excise) EU payment and international membership fees Sureties Debt assumption PIT transferred to local governments as normative grants</p> <p><b>SOCIAL SECURITY</b> Old age pension Survivor's pension Cash benefits Passive expenditures Family subsidies Income supplement and complementary social transfers Social institutions</p> <p><b>DISASTER PROTECTION</b> Disaster protection</p> <p><b>HOUSING</b> Public utilities Expenditures of Miklós Wesselényi flood and inland water indemnification fund Housing subsidies</p> <p><b>HEALTHY LIFE</b> Pharmaceutical subsidies Drug prevention</p>
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## PROGRAM STRUCTURE – STARTING POINT FOR THE DISCUSSION OF THE INTRODUCTION OF THE SYSTEM

<p>Health care Curative-preventive care Ambulance service Blood establishment Military health care institutions Health insurance supervision Drinking water supply Sports</p> <p><b>KNOWLEDGE</b> Public education</p> <p><b>EQUAL OPPORTUNITIES</b> Support to national minorities Disability pension Equal treatment Child and youth protection Employment of persons with altered working capacity Protection against social exclusion Disabled people National Radio and Television Board</p> <p><b>CULTURE, NATURE, RECREATION</b> Support to civil initiatives NGOs Support to social organisations Support to the religious activities of churches Cultural heritage Public collections Historical archives of national security services National Cultural Fund Public culture, cultural rural development International cultural relations Natural heritage and biodiversity National parks and nature protection Aquaculture</p> <p>Arts Artistic institutions Recreation</p> <p><b>LABOUR MARKET</b> Expansion of employment capacity (labour demand) Improving the employment of disadvantaged/vulnerable employee groups Contribution allowance to persons returning to the</p>	<p>labour market from childcare Contribution allowance to persons returning to the labour market from long-term unemployment Subsidy to investments for employment of unemployable or difficult-to-employ persons Development of institutions employing disadvantaged persons Support for the employment of people with altered working capacity Active labour market programmes for disadvantaged workers Public work programme Return of the long-term unemployed to the labour market "Pathway to Work" programme Early retirement pension of miners, etc. Wage subsidy to jobs to alleviate the effects of the economic crisis of 2008</p> <p>Prom. and support to employment (improved relevance) Income supplement to job seekers Efficient information and support to job seekers Creation of integrated social and employment database Labour market forecasting and dissemination system Assistance to the return to work and reintegration (unemployed, training, etc. programs) Involvement of NGOs in providing assistance Capacity expansion of NGOs providing labour market services "Pathway to the world of labour" complementary program Operation of the Public Employment Service (Empl. and Social Bureau+Reg. Lab. Centres+network) Improvement of the services of the Public Employment Service Further training and vocational training Regional training centre Reform of the vocational training system, improving its relevance Review of adult vocational training (transfer, financing, assessment) Organisation of regional training network from state financed institutions Launch of training programmes focusing on the latest developing sectors of the economy</p>	<p>Provision of vocational skills and further training - sub-tertiary Training of the unskilled, their preparation for further (vocational) training Support to on-the-job training Tertiary vocational training Teaching of professions in shortage in tertiary vocational training Promotion of life-long learning (LLL) Support to public education institutions under LLL Uniform career follow-up system Establishment of tertiary career follow-up system Establishment of secondary career follow-up system National vocational training and adult education institute Inclusion in the labour market Equal Treatment Office Rehabilitation of persons with altered working capacity Annuity of persons with altered working capacity Support to job creation for rehabilitation purposes Integration of school drop-outs Employment integrated into training Reinforcement of flexibility and security Improvement of the legal framework of flexibility and security Enhanced legal protection to workers (also in case of the uncertainty of their employer) Reinforcement of legal remedies, particularly in case of discriminated groups Expansion of flexible forms of employment by the review and reform of the Labour Code Propagation of atypical forms of employment in public services Part time employment for persons returning from child care Support of atypical forms of employment Whitening of employment Enhancement of health and safety at work and improvement of labour inspection for the whitening of employment National Labour Inspectorate Partnership and dialogue National Interest Conciliation Council Strengthening partnership and dialogue Social dialogue programs</p>
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### EXAMPLES OF POSSIBLE NATIONAL INDICATORS

	Indicator	Measuring organisation
Economic activity	GDP	HCSO
	Household consumption per capita	HCSO
	Value of investments in the national economy	HCSO
	Interest rate differential over Euro yields (yield of German government papers)	capital market, ÁKK (Debt Management Agency)
	Sovereign risk rating	international rating agencies
	Unemployment rate	HCSO
	Long-term unemployment	HCSO
	Unemployment of young persons	HCSO
	Employment rate	HCSO
	Ratio of contribution payers into Pension Fund	Pension Fund Administration
Sustainable growth	Energy intensity (=Energy consumption/GDP)	HCSO
	Emission of air pollutants	HCSO
	Volume of hazardous waste	HCSO
	Air pollution by sulphur dioxide, nitrogen dioxide, settling dust, carbon monoxide or ozone	HCSO
	Size of area covered by healthy stock of trees	HCSO
	Water consumption per capita	HCSO
	Water quality indicators of our natural waters	National Inspectorates for Environment, Nature and Water
	Total fertility rate	HCSO
Security	Number of crimes subject to public prosecution	HCSO
	Ratio of crimes detected	HCSO
	Number of road accidents with personal injury	HCSO
Health and full life	Average life expectancy at birth	HCSO
	Health-adjusted life expectancy at birth	WHO
	Survey: On the whole, are you very satisfied, fairly satisfied, not very satisfied or not at all satisfied with your life?	Eurobarometer
	Number of suicides per thousand persons	HCSO
	In the various regions, the concentration of chloride, iron, nitrate, manganese, nitrite, ammonium, arsenic, mercury, cadmium, nickel, lead, chromium, etc., in drinking water	Water works
	PISA	OECD
Political system	Democracy index	Economist Intelligence Unit
	Corruption index	Transparency International
	Survey: To what extent do you trust the following institutions: Parliament, government, trade unions, political parties, army, jurisprudence/Hungarian legal system, police, media?	Eurobarometer
Social solidarity	Gini coefficient	based on HCSO
	Ratio of the average income in highest and lowest deciles	HCSO, Társi Social Research Institute
	Poverty rates among children	HCSO, Társi Social Research Institute
	Objective indicators of financial deprivation: limitation of addressing essential needs = "subsistence poverty", ratio of persons living in households without essential consumer goods = "comfort poverty", ratio of person living in poor housing conditions = "housing poverty"	HCSO, Társi Social Research Institute
	Ratio of person living in unemployed households	HCSO, Társi Social Research Institute



**DESCRIPTION OF THE LEVELS OF THE PROGRAM HIERARCHY**

	main program	program	subprogram	activity
stability of target directions	permanent		finite	
stability of allocation	enshrined in law		may change	
duration	permanent (indefinite time)		finite (definite time)	
decision making level	Parliament		government/minister	
prezentációs szint	Budget Act		government decree	ministerial decree
type of indicator	outcome		output	
type of manager	several ministers	one minister	state secretary, govt commissioner, head of dept	
may it be a single institution	no		yes	

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