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Program budgeting

*Characteristic features
and practical experiences*

Incremental budgeting, i.e. the chapter based budgeting mechanism that groups expenditure items mostly according to the administrative classification – and is also used in Hungary – is suitable for the detailed planning of expenditures and the itemised control of their implementation. However, it is not suitable to measure the quantity and quality of products and services that were generated through the expenses, or the absolute and relative costs involved. In its reports the State Audit Office of Hungary has several times called for the application of modern budgeting techniques in the Hungarian system of public finances. One of these techniques is the so called program budgeting. Based on the available international experience and the presented case studies, the main purpose of this article is to promote the comprehensive application of program budgeting in Hungary. However, we cannot omit mentioning the theoretical background of some of the correlations.

THEORETICAL BACKGROUND

It has been increasingly demanded that the state should give up – as much as possible – its substantial active economic role typical for welfare mixed economies and should return to its original functions. This is all the more nec-

essary because in many countries the priority of the redistribution function and the expansion of the economic ventures of the state have many times interfered with the fulfilment of the traditional functions (the so called core functions). This is why the allocative function of the state is given more and more emphasis. This function of the state intervenes into the allocation of resources in a manner different from the one used by the market, with a view to generate collective goods more efficiently than with the market method.

This means that the allocative function is designed to deter market losses, wherefore it is gaining importance not only in the developed, but also in the emerging countries.

According to *Tanzi*¹, in less developed societies economic inequalities are determined by the mainstream social norms and the possession of real assets in contrast with the modern, developed societies, where the key role is that of human capital, and where the main source of income is work rather than property. As a result, the emphasis must be placed – in less developed countries, too – on the production of collective or semi-collective goods (on education in the first place), i.e. on the allocative function of the state. It must be understood that the concept of collective goods (which apart from purely collective goods includes other groups of goods,

such as goods subject to fee payment, goods of common stock and meritoric goods, too²) covers a group that keeps changing both in space and time. In these countries excessive state intervention is also contra-indicated by the fact that the tax revenues are much smaller because of the smaller per capita GDP, wherefore a large state structure would fulfil its function *a priori* less efficiently.

Judging from the theoretical background of the method, the planning/reporting technique and institution financing method called program budgeting was devised to fulfil the allocative function of the state, and is basically supported by two, primarily microeconomic concepts: Firstly, state institutions also generate goods (collective goods), i.e. their operation must be developed keeping this in mind. Secondly, it has been recognised that the inadequate efficiency of state institutions is usually due to the principal-agent type system of relations. Consequently, the starting point for program budgeting is the identification of the collective goods to be generated and/or the related tasks and outputs. On the other hand, it tries to establish a system of responsibilities that is able to reduce the inefficiency arising from the principal-agent phenomenon.

PRINCIPLES

Program budgeting is a performance (output) based budget planning, executing and auditing system, or rather process, which directly links the funding of the budgetary organisation to the results achieved by said organisation, the generated “products” and services.³ In this system the budgetary needs of an organisation include not only the resources planned to be received, but also those “products” (outputs) and results (outcomes) that are expected to be generated from the resource allocated to that

organisation. The decision-maker sets performance objectives for the outcomes and outputs, and determines the size of the funds to be allocated for the task based on the costs of production, and transfers such funds to the selected organisation. This can happen in the form of the purchase of the produced outputs and results (outcomes) by the decision-maker from the organisation or (another entity).

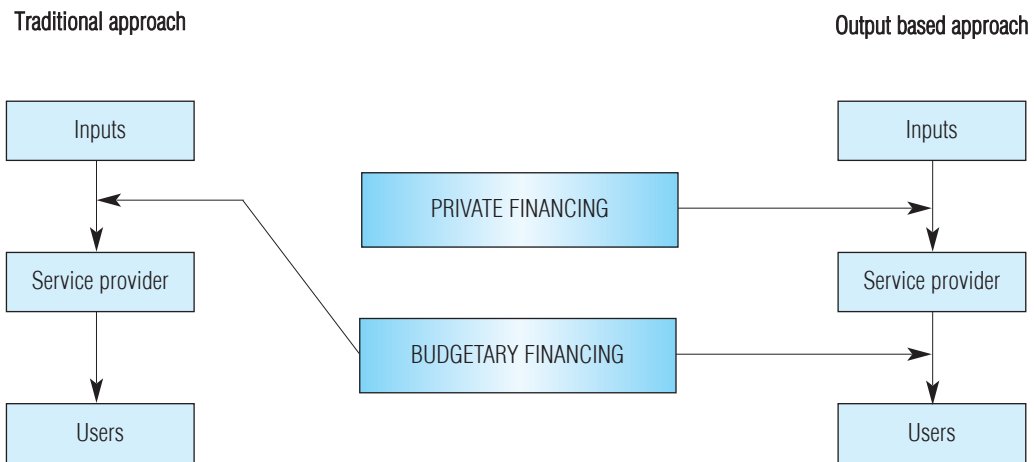
This means that funding is linked to performance. The customer, in this case the government, sets performance objectives, and decides about the extent of funding in the light of the required costs. In contrast with this, the traditional budgeting system is only capable of planning and of inspecting implemented expenditures. *Figure 1* shows the difference in the logic of the two planning systems.

Three stages can (must) be distinguished in the modern program budgeting technique.

❶ **Planning:** comprehensive, strategic, long-term objectives must be set. The social policy objectives must be thoroughly worked out and quantified, because they cannot be interpreted by themselves for program budgeting (e.g.: instead of “the quality of healthcare must be improved!” we should say “the mortality rate or the number of days spent on sick leave must be reduced”). It must also be determined what social groups are covered by the different objectives, and what alternatives can be used to attain these objectives. Briefly: what and how the government wants to achieve?

❷ **Programming:** the objectives of the planning stage must be classified under programs, which are then decided about by the competent decision-making authority. As far as possible the most ideal one must be selected. This process is best suited by the cost and profit assessment. The program categories (broad priorities) are usually selected by the government, while the priorities can be optimised by the competent ministries. A good decision requires an adequate information system. In many

THE DERIVATION LOGIC OF THE TRADITIONAL AND PROGRAM BUDGETING SYSTEMS



places the PPBS method was forced to be given up for the lack of such a system.

③ Budgeting: the program appropriations are broken down annually by organisational units and the responsibilities pertaining to the individual programs. This is actually the most difficult task, since the concrete duties for the given budget year must be determined on the basis of multi-year programs. In this stage it might pose a problem if one program is supervised by more than one entity, if the persons in charge of the program form another responsibility organisation, too, apart from the organisational structure. The two structures may conflict each other, causing information disturbances or the clash of organisational interests. To forestall this problem, efforts are made to unify the two systems of responsibility.

Program budgeting must be integrated into a broader model of budget management, i.e. governmental services must be redefined in a much more outcome oriented manner. Based on the pioneering experience of a few developed countries, the most efficient approach for this is the thorough consideration and enforcement of responsibility (accountability) relations within the public sector:

- performance itself, the content, qualitative and quantitative characteristics thereof and the conditions for service supply must be determined in a manner so that they can be applicable by the organisational leaders in charge of budget management;
- instead of the stringent regulation of inputs, budgetary organisations must be given greater managerial autonomy and freedom, so that they could decide how the set objectives can be most efficiently achieved;
- the system of incentives and sanctions applied to the organisational leaders must be modified.

In many countries reorientation from the old concept towards the new, top-down one entailed profound consequences, since the precise definition of the collective goods and governmental activities to be provided triggered a major reduction of the public sector, and certain public finance reforms in many cases. The consequences included the restructuring of the relationship between the government and the private sector, which meant – among other things – that the government's role has been significantly curtailed in the regulation of certain private sector activities.

On top of all that, the government increasingly borrowed private sector techniques to plan and provide governmental services. One of these techniques is strategic planning, which is not identical with the traditional method used for the preparation of the state's development plant. The consistent example of strategic planning is the solution applied in New Zealand, i.e. a three-stage process implemented top-down.

❶ First of all the sustainable level of state activity must be determined. Sustainability must be considered for the long run (too), albeit strategic planning must be implemented at least for a medium-term timeframe.

❷ In the next step the most important tasks to be performed must be determined (strategic

result areas). Keeping in mind the requirement of long-term sustainability, too, these areas of strategic importance mostly focus on the generation of collective goods (education and further training, national defence, etc.).

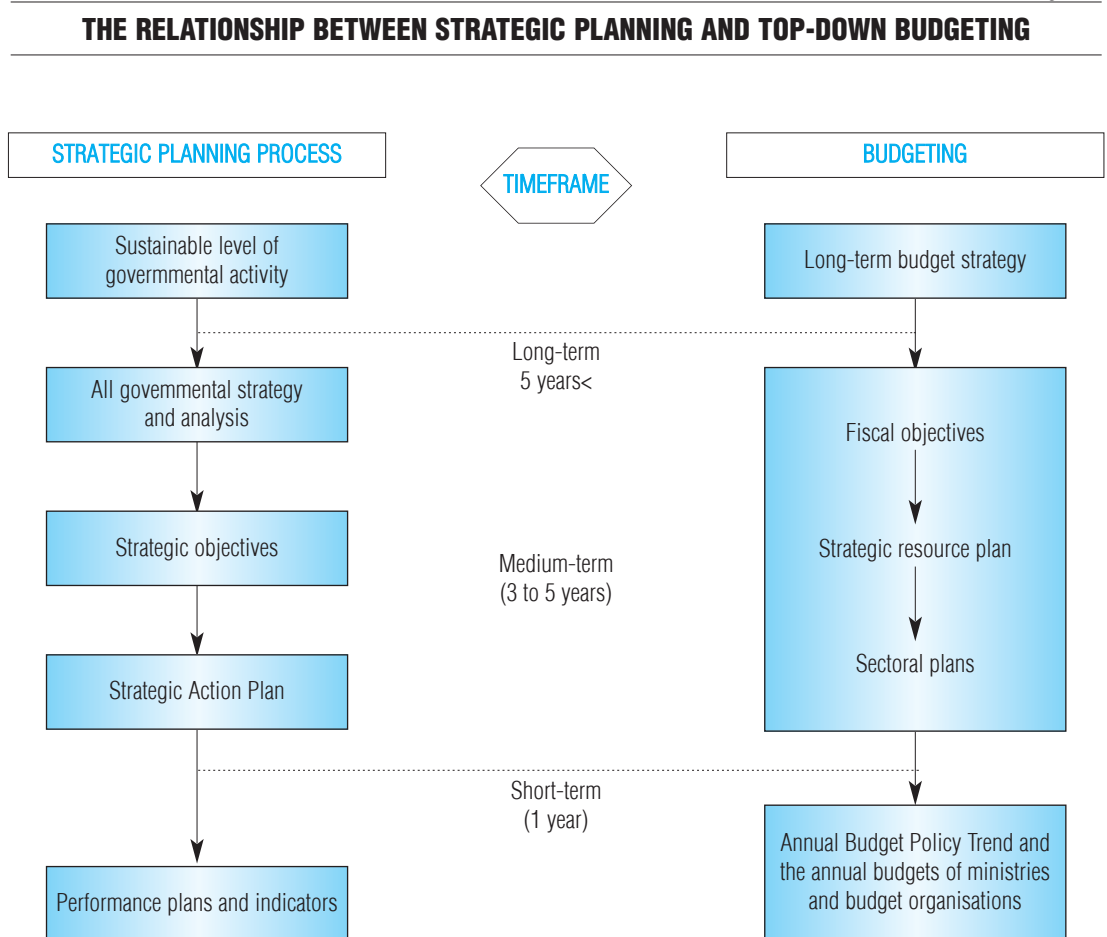
❸ In the third stage of planning these major activities must be translated into action plans for all organisational units.

Figure 2 illustrates the relationship between strategic planning and top-down budgeting.

INTERNATIONAL EXPERIENCES

The pioneers of performance oriented budgeting techniques were overseas Anglo-Saxon countries, however such techniques were later

Figure 2



incorporated into the European practice, too. Without giving a comprehensive description of this process, which was characterised by advances and setbacks, we first review in detail the major characteristic features of the public finance reforms in New Zealand, and then more concisely those of the Spanish and French public finance reforms. Finally, we provide a summary of a few general experiences, and then discuss the Slovak experience in a little more detail.

The public finance reform in New Zealand

The reform in New Zealand crystallised in the decision-makers along a chain of ideas similar to those described at the beginning of this article⁴. In line with this: in relation to the state functions the emphasis should be shifted to the old “core function” and the allocative function, and the generation of public goods. The production of all goods that are closer to the private goods on the public goods-private goods scale⁵ must be preferably left to the private market. Public goods production by the state also needs to be reformed due to the special conditions pertaining to the supply of and demand for collective goods. The reform in New Zealand focused on increasing the efficiency of the supply side. It did so for a good reason, since the demand for collective goods can hardly be revealed. Yet, an effort was made to improve efficiency on this side, too: the 1993 reform of the election law. As a result, the Anglo-Saxon electoral system, which consisted of single-seat, “first past the post” constituencies was replaced by a mixed system – similar to the Hungarian one – consisting of multi-seat, party list constituencies. In this system the chances are much slimmer for the majority to become over-represented in the House of Representatives, wherefore it often happens

that a government can only be established through coalition. This means that a wider consensus is required for decision-making in important issues, which yields voting results closer to the Pareto optimum.

Naturally, the reform of the supply side was much more elaborate, accentuated and comprehensive. The methods applied here are sometimes referred to as state functions coupled with market conditions. From the theoretical point of view this is nothing more than the development of such efficient principal-agent sample agreements, i.e. the application of such efficient incentive mechanisms that create market-like relationship between the participants.

The Government of New Zealand faced serious macroeconomic problems in the first half of the 1980s: inflation jumped to 15% in 1982 from the 10% measured two years before. As a consequence, the Government froze all prices and incomes in the economy by law. This measure reduced inflation in the short run, but distorted relative prices, caused hidden inflation, and made it even more difficult to plan and implement fiscal and monetary policies. Governmental expenditures grew from 28% (1970s) to 41% of the GDP, while the budget deficit grew from 1% (early 1970s) to 9% of the GDP by 1984. Gross state debts reached 64% of the GDP, and a further rise could be anticipated due to the large fiscal deficit. Unemployment grew from a negligible level in the 1960s to 7% by 1983, while 31% of the employees worked in the state sector. During 1984, increasing speculation could be witnessed against the national currency, and the defeat of the governing National Party at the general elections held in July caused a currency crisis. The country's credit rating deteriorated from AAA to AA.

Naturally, stabilisation efforts were made earlier, too, however they did not yield long-term success. Since two thirds of the deficit composed of structural deficit, the decision-

makers realised that the permanent success of adjustment could only be guaranteed if structural (micro) reforms were implemented, too. It was proposed that the state's role in the economy and society should be redefined. This meant that the need for efficient market coordination was recognised again. It was realised that market conditions should be extended to as many functions as possible, i.e. the state should be redirected to fulfil its core functions and allocative functions.

The reform was implemented from 1984 through the mid 1990s, throughout four election cycles⁶. First of all, the majority of rules and restrictions hindering free market processes were gradually demolished. On an imaginary scale the officials involved in the reform tried to determine to what extent the goods and services provided by the state were public goods.⁷ Institutions that provided services deemed to represent private or semi-private goods were spun off from the central government and were transformed into companies operating according to market principles, and as many of such companies were privatised as possible. The production of only those collective goods was left to the central government that could not be marketised at all, or could have been done so only at the expense of great market losses. Based on the experiences and theoretical relations – after the low efficiency of bureaucratic institutions and the success of corporatised companies was realised – the management and funding of the government was restructured in the late 1980s.

Prior to the reform of the central government, the country was run by an input-financing bureaucratic system that regulated everything centrally to the tiniest detail. In the middle of the 1980s the following problems were thought to be the most urgent ones:

- the designation and objectives of the departments and ministries were not clearly defined;

- the responsibilities of the politicians and public officials, including the accountability relations, were not unambiguous;
- the ministers managed everything to the tiniest detail, they made concrete decisions regarding the internal management of the departments although they had neither sufficient information, nor adequate incentive mechanisms;
- there were no adequate tools to sanction low performances.

During the elaboration of the new operational structure the following happened from the theoretical point of view: the roles in the politician-public official (principal-agent) relationship, as well as the objectives and tasks of the participants were clearly defined, the asymmetry of information, which made the principal-agent relationship problematic, was reduced to the minimum, and assignment contracts containing efficient terms and conditions (incentives, sanctions) were formulated.

In reality, the fiscal bureaucrats implementing the reform believed that the major sources of the problems in the community sector included annuity-hunting, and the capture of the department by itself or by external entities. This is why it was thought that assignment contracts should be made efficient by applying market conditions and political decision-making should be separated from implementation, i.e. production (input-output separation). As a result, political decision-makers can act as consumers who sign contracts with departments and ministries producing public or semi-public goods, and which must compete with other suppliers. The emerging customer-seller relationship and the competition will create market-like conditions. However, this functions well only when supported by an efficient controlling mechanism, and the underlying social publicity and openness. This is why, after presenting the steps of market creation, the controlling and reporting requirements designed

to maintain the operation of the market must also be briefly described.

The precise definition of the roles first of all required the clear definition of who sells what in the principal-agent relationship, and who uses what for his activity. The main issue was that public institutions had to shift from input financing to output financing. This necessitated the unambiguous definition and differentiation of the concepts of input, output and result (outcome).

Input means those resources (capital, workforce, information, time, etc.) that are used for the production of goods. Therefore, the salary of a public official or the purchase of a fire engine is considered as input.

Output means goods or services that the minister purchases⁸ from community or private producers. These can include political consultation, the enforcement of rules and many other services. The departments (ministries) must define their outputs as well as the volume, quality, delivery deadline and costs thereof.

The different outputs are grouped under various output classes. The Parliament authorises the ministries to purchase output classes. Outputs grouped in the same output class must be homogeneous, they should provide information, according to the ranking criteria, to the Government for decision-making and to the Parliament for controlling.

There are two main outputs: the departmental outputs that are produced by governmental departments, and the nondepartmental outputs that the minister purchases not from a governmental department, but rather from voluntary groups, public benefit private foundations and (most often) from Crown Entities.⁹

The result (or outcome) is the impact of one or more outputs on the community. It is up to the Government's political decision what community impacts or outcomes it wants to achieve by spending public funds. These decisions can be predicted from the strategic areas¹⁰ related to the long-term community objectives of the

Government. Such areas must be determined through the coordination of the Prime Minister's Office and the Cabinet. Strategic Result Areas in the mid 1990s included:

- the maintenance and possible improvement of economic growth,
- the maintenance of external relations,
- education and further training,
- public safety,
- social welfare,
- healthcare,
- environmental protection.

It is decided by the Government and the ministers what outputs they want to purchase to reach a certain outcome. Outputs can be purchased from several suppliers to reach a given outcome. For example, to attain the "reduce the number of crimes" outcome the Government may purchase outputs from the police, the Ministry of Justice, the Ministry of Social Welfare, Crown entities producing educational services and other entities. Low performance forces the government to purchase the given output from another place if possible.

As an output purchaser, the Government is interested in the acquisition of the same information as a customer requires in a private sector purchase and sale agreement: the price, the quantity, the quality, the place and time of delivery. This is why the departments must define these characteristics of their outputs, as I have mentioned above.

As the owner of public departments, the Government wants to make sure that the assets in its possession are utilised efficiently, and that a department maintains its efficiency in the long run, too. As an owner it needs a financial report prepared according to the result oriented procedure used in the private sector (accrual accounting) so that efficiency could be compared with that of private companies.

The dual interest of the government (owner-customer) can be revealed in the distinction between "vote" and "responsible" ministers.¹¹

The vote minister requests authorisation from the Parliament for the purchase of outputs, i.e. he represents the government's interests as a customer. Output financing is voted by the Parliament by categories.¹² In general, one ministerial portfolio belongs to one ministry (department), which requires one parliamentary approval. (In other words: one approval – one minister – one ministry.) However, if a ministerial portfolio belongs to several ministries, or a ministry produces outputs for more than one minister, more approvals are needed. Public money can be spent only for the purpose specified by the given parliamentary approval.

Each ministry has a responsible minister representing the interests of the owner (the Government and the people of New Zealand) of the capital invested in the department. The responsible minister and the vote minister are

often the same person. Naturally, the ministers are not involved in the day-to-day management of the ministries. That is the responsibility of the directors general heading the ministries, however the ministries must report to the Parliament about the general performance of the ministries. The ministries are first of all responsible for the delivery of outputs stipulated in the contracts signed with their respective ministers.

Apart from funding outputs, public money can be paid under two other legal titles: capital allocations (which are also voted by the Parliament case by case) and transfer payments. Obviously, in case of the ministry performing the transfer payment, the transfer has nothing to do with the departmental costs: the transfer payment is the ministry's output.

Table 1 presents immigration related outcomes and output classes as an example.

Table 1

IMMIGRATION RELATED OUTCOME AND OUTPUT CLASSES

<p>THE OUTPUT CLASSES PROPOSED FOR ADOPTION BY THE MINISTER OF IMMIGRATION (VOTE MINISTER) AND THE RELATED OUTCOMES FOR THE 1999/2000 BUDGET YEAR:</p> <p>Vote minister: Minister of Immigration Ministry producing the output: Ministry of Labour Responsible minister: Minister of Trade</p>
<p>Related governmental outcomes: The general objective is to make immigration contribute to the powerful growth of the economy. This is why the Government aims to:</p> <ul style="list-style-type: none"> • spur economic growth through increasing New Zealand's human capital and expanding its international relations; • contribute to social cohesion through well adjusted immigrants; • protect the interests of legal aliens in New Zealand through ensuring the integrity of licensing criteria; • fulfil the international humanitarian commitments of New Zealand.
<p>Output classes:</p> <ul style="list-style-type: none"> • political consultation on immigration; • management of the movement of immigrants and visitors; • investigation of the violations of immigration laws; • completion of the necessary deportations; • ensuring border surveillance; • supporting the services of immigration organisations; • evaluation of asylum requests and management of the refugee quota program; • ensuring programs and research projects that facilitate the settlement of immigrants.

Source: Department of Labour, 1999

The directors general of the ministries are hired with a performance contract for a definite term of usually three to five years. The performance contract is a key document between the responsible minister of the department and the director general. The career advancement and remuneration of the director general depends on how well he can meet the output requirements laid out in the (purchase) contract. In return, he is given a free hand to utilise the inputs, including human resource decisions.

The purchase contracts are signed by the director general and the vote minister. The contracts stipulate the above features of the outputs, in which the minister is interested as a customer. These are:

- the terms and conditions of the contracts,
- the description of the outputs,
- the costs of the outputs,
- the method of performance evaluation,
- the reporting requirements,
- the possible sanctions and
- the contract amendment procedure.

The ministers may choose from among the outputs, and have the possibility to replace a given quality level with a larger quantity, lower costs, or vice versa. (In other words, trade-off is possible.) The ministers may determine the content and format of the report they require, on the basis of which they can evaluate the completion of the purchase contract, or may even modify it. If modification requires additional resources, a new authorisation is needed from the Parliament.

Some of the ministers may conclude purchase contracts with nongovernmental organisations, too. In such cases the contract is signed by a ministry represented by a minister.

The director general must exercise versatile control over the output costs not only to have adequate information to modify the input combinations should the input prices change, but also – among other things – because output pricing is based on this output cost, too.

Naturally, other methods are also used for this purpose, i.e. private and community producers are invited to submit competitive bids.

The objective is to make ministries as efficient as private companies. To this end, the minister seeks several output producers and calls them to compete.

The directors general and managers need accurate and up-to-date information to efficiently run the departments. On the other hand, the Government and the general public demand regular reports on the departments' performance. For this reason the community sector began to use an accounting system that is also used in the private sector. Formerly only cash flow was registered; the government knew how much money it spent in a given fiscal year, however it had no information about the output volume, the costs of output production, or about the value of assets in its possession. The new accounting system¹³ accounts each transaction after it is completed, irrespective of the fact that it is carried out in cash or kind. The system also takes into account changes in the value of assets. The departments account to cost places and cost bearers. Although these concepts seem to be self-evident, New Zealand is the only country where the entire public sector follows this accounting principle, which makes it possible to compare the effectiveness of the public and the private sectors.

This method allows the Public Finance Act to mandate the departments to prepare a general statement of funds flow. Based on these statements, the Crown (the State) can produce reports reflecting the actual financial and property position. The three most important statements are:

- Statement of Financial Performance, i.e. of revenues and expenditures;
- Statement of Financial Position: a balance sheet containing the net asset value of the Crown;
- and the Statement of Cash Flows.

Control and transparency is also ensured by the fact that public funds can be kept only on two types of accounts held by commercial banks.

■ The first is the bank account of the Crown, which is managed by the Treasury. Prior to the reform this account was kept by the central bank, which made it extremely difficult for the Treasury to manage the economy's short-term liquidity. As a result of the reform, the central bank turned into a public department the only output of which is to keep the annual rate of inflation below 2%. Pursuant to the relevant purchase contract, the president of the central bank is responsible only for this output.

■ The other type of account is the so called departmental (ministerial) bank account. These accounts can only be used for keeping money transferred by the Treasury or yielded from the sale of departmental assets. All other public funds must be deposited on the Treasury account.

As far as the macroeconomic results of the reform are concerned, it is beyond any doubt that the position of the budget largely improved by the end of the reform period. Although improvement was significantly assisted by the reform of the central government, it is difficult to distinguish its impact from the impacts of other fundamental reforms and measures, such as the liberalisation of international trade or capital movements, the deregulation of the financial markets, or the introduction of the monitoring of inflationary objectives.¹⁴ In addition, the development cycles also paid an important role: the budget deficit hardly decreased until 1990, and a balanced budget could be achieved only in 1994, after a boom in 1993. It seems that the comprehensive reforms contributed to the rise in tax revenues and the drop in expenditures. Despite the reform, expenditures initially grew to 42% of the GDP by the years 1990–1991,

but then – under various impacts – they fell back to 35% by 1995. Such impacts were generated by the reduction of social expenditures, the alleviation of unemployment from 11% to around 6%, as well as cost savings and enhanced efficiency achieved through the structural reforms.

New budgetary system in France

The 1959 decree of constitutional force (*Ordonnance*), which governed the French budgetary system – and which, due to its function, was a basic law serving as a foundation for the budget laws¹⁵ – was replaced by a new regulation in 2002. The new decree of constitutional force launched a considerable public finance reform, a major element of which was the introduction of program budgeting. This technique was and is still expected to enable the ministries (departments) to set the achievable objectives, to prepare substantial performance reports on their activities, and consequently to reach greater independence and accountability.

According to the decree, program budgeting should be introduced by 2006. This deadline has been met: two major blocks of it – the compilation of program budgeting itself and the issuance of the audit opinions by the Supreme Audit Institute of France (*Cour des Comptes*) – have already been applied during the development of the 2006 budget.¹⁶

Strategic and prospective budgeting was implemented at three levels.¹⁷ The most comprehensive objectives (missions) were defined in the form of 45 public policies.

In the course of this work 149 strategic program directors were responsible for connecting the strategic objectives derived from the public policies with the operative results. In line with this, 149 programs were presented to the Parliament for approval instead of the former, nearly 800 line items. The programs are linked

to performance indicators that help the preparation of the annual reports.

At the second level of the new budget system approximately 1,200 operative budget program directors were assigned operative objectives, who also became accountable through the performance indicators. The implementation of the concrete tasks (actions) is the responsibility of the directors of the operative units.

The programs are audited by an interministerial committee headed by the chief auditor of the Ministry of Finance. On one hand the committee is responsible for ensuring that the programs are implemented in compliance with the quality requirements laid out in the budget law submitted to the Parliament. The other task of the committee is to evaluate the annual performance audits prepared about the programs.

Thus, budget planning spans several three-year-long periods, and – since the 2002 decree of constitutional force was adopted – this, as well as the transfer of the appropriation for the next year is permitted for all operational and investment appropriations, except for wage-like expenditures. The latter are restricted with an upper limit, and can be regrouped for other purposes (however, regrouping in the other direction is not possible).

The Parliament approves the programs, as well as the related multi-year commitments and annual payment limits. As we have already mentioned above, the commitments can be taken forward to the next year without any restrictions.

As far as the reports on the programs are concerned, they are prepared on the basis of partial, outcome oriented statements, while the budget is developed and approved with the cash flow approach. The third component of the new accounting system is a managerial information system capable of monitoring program costs and outcomes.

The budget and accounting system outlined above seems suitable to enable the public

administration system of France to measure the costs of public policies and evaluate the underlying assets.

The public administration reform in Spain

Although the national economy of Spain is much bigger, it is also much less open than that of Hungary. Yet, the development path taken by the Spanish Kingdom in the past decades may also present many lessons for the economy of Hungary. Spain's accession to the EU was preceded by the reform of the public sector. In the period 1982–1986 the socialist Government's major efforts were needed not only because of the large budget deficit, but also because the deteriorating efficiency of the utilisation of budgetary funds. One of the main direct objectives of the reform was the adoption and application of modern budgeting techniques, and the final indirect objective was the transformation of the budget into a tool capable of improving public services. Within the framework of the report, budget expenditures were linked to programs. The development of the practice of program budgeting took several years. It is important to point out that program budgeting is applied not for the entire, but for the larger part of public expenditures in the case of which this is justified by the nature of the expenditure objective.

Similarly to Ireland and Greece, the momentum of GDP growth slowed down in Spain, too after the EU accession, and even a setback could be witnessed in 1987. Based on the available data we can determine however that consumption relative to the GDP increased (which means that the growth of real consumption decelerated to a smaller extent than it would have been justified by the setback in the GDP). On the other hand, gross savings measured as a percentage of the GDP almost remained the same.

The economic slow-down experienced by Spain in 1995–1996 was followed by a 3.4% GDP growth in 1997 due to increasing exports, investments and consumption. The quickening of the economy was facilitated by the drop in interest rates.

Eventually, after joining the euro zone, the objective became increased employment combined with price stability. Unemployment was never as low as it has been now, and the Spanish companies are powerful participants in the global markets.

The topical objectives of the economic policy are the gradual increase of real wages and employment, the economic prosperity of the regions, the development of less developed regions, as well as the prevention and handling of problems arising from the ageing of the population.

From the above mentioned objectives we highlight compliance with the Maastricht nominal convergence criteria and the issues of absorption capacity building in relation to the Structural and Cohesion Funds of the EU. This is given special actuality by the fact that in the two years preceding its accession to the European Monetary System, Spain's public finance deficit was well above the fiscal convergence criteria in Spain.

Another important feature is that the Spanish state structure is regionalised, the statutes of the autonomous provinces provide great independence, and the local governmental system is fractured. In other aspects the Spanish state structure serves as a model for the public administration reform proposals tabled by Hungarian experts, since the two countries have faced similar issues in the funding, task performance, as well as the external and internal control of the local governments.

The Spanish experience is noteworthy for budget stabilisation. The deficit that emerged after Spain's accession to the EU (in the second half of the 1980s) was addressed by the gradual

introduction of program budgeting. Accession to the eurozone was ensured by means of a system of social and economic agreements, which also served the curtailment of budget expenditures. With a view to observe the Stability and Growth Pact, the Budget Stability Act was adopted, which contains mandatory and predictable requirements (objectives and tasks) for all levels of the public finance system. The first budget subject to the Budget Stability Act was prepared in 2003. The permanent budget framework was introduced for the autonomous communities, healthcare services were fully decentralised and the new financial system was introduced for the local authorities. These novelties are supplemented with close monitoring and transparency. The reform of the personal income tax – going beyond the mere reduction of the tax rates – has been put on the agenda. The country pursues a labour market supply oriented policy that encourages women to enter the labour market, and promotes geographical mobility on the labour market. The amendment of this act is under way. A considerable lesson of the Spanish budget reforms is that Spain could harness the budget processes despite significant fiscal decentralisation, which is largely attributed to the application of program budgeting.

The general experience of the developed OECD countries

Apart from the three countries mentioned above, in the early 1950s and 1960s – after many successful and even more unsuccessful efforts – several other countries tried to introduce a new, more mature performance based approach. According to an OECD survey performed in 2001¹⁸, seventy percent of the member states used performance related information in their budgets.

Based on the general experience gained from the program budgeting efforts of the developed

OECD countries, it is recommended to consider the following for the success of the reforms:

- a reform can be successful only if it is the result of organic development, a certain evolution;
- the need for reform must be generally accepted;
- the reform must play a central role in the political directives of the government;
- the state and the public must have adequate possibility and ability to control the fiscal processes (in the current Hungarian practice this conditions is very weak, since the fiscal management cannot or can hardly resist the pressure on the expenditure side, and this cannot substantially be changed by posterior audits);
- it is very important that the greater room for manoeuvre available for the heads of institutions, the certainty of budget financing (multi-year budget planning must be implemented at lower governmental levels, too) and the performance requirements set for the managers must exist simultaneously, since if any of the three is missing, the aim of program budgeting cannot be attained. What is more, the risk of overspending or reduced operational efficiency emerges;
- since the situation differs from country to country, the reform process must be planned with engineering accuracy, starting from the elaboration of the reform plan through the strategy of introduction to the orchestration of the new processes.

The experiences of the transitional countries based on the public finance reform in Slovakia

The problems that the public finance system of Slovakia had to face at the turn of the millennium were similar to the current Hungarian

problems in many aspects: the pressure on the expenditure side of the budget triggered overspending again and again, and the problems of the Slovak and Hungarian large social supply systems (the pension and healthcare systems) practically shared the same roots.

Naturally, it holds true for Slovakia, too that the fulfilment of the Maastricht criteria, and compliance with the co-financing requirements linked to the EU transfers – mostly to subsidies from the structural and cohesion funds – produce conflicting effects on the position of the public finance system, and thus encourages the reform of the public finance system from the outside. After the measures taken in 1999 and 2000 to curb the budget deficit, the Slovak Government launched a comprehensive public finance reform following the general elections of 2002. This reform affects many elements of the public sector and induces structural changes, too. The governing parties' commitment to the reform was indicated by the fact that in 2003 they relatively easily adopted those acts and legal regulations that regulate the tax and pension reform, the reform of social benefits, as well as the reform of the labour market, the partial reform of the public administration system, the reform of the healthcare, education and judicial systems.

The Ministry of Finance initiated the introduction of program budgeting already in the late 1990s. In 2000, US experts were invited to assist the implementation of the program. This budgeting technique was first applied in the framework of a pilot project in 2001, then in four budget chapters (Ministry of Education, Constitutional Court, Supreme Court and the Academy of Sciences of Slovakia) in 2002. In the 2003 budget, program budgeting was applied for further five chapters: the Ministry of Health, the Ministry of Transport, Posts and Telecommunications, the Ministry of Agriculture, Ministry of Defence and Ministry of Interior.

In June 2003, the World Bank extended a USD 5 million loan to the Slovak Ministry of Finance to foster the implementation of the budgetary reform, including the extension of program budgeting to all budget chapters from 2004 on.¹⁹ The long-term objective is to create a prospective budgeting system, in which the annual budget is always only the first part. Despite this fact, the program based budgets of the years 2002–2004 were exclusively elaborated for the given years only. Comprehensive program budgeting as a planning and accounting system that covers all budget chapters and means programming for several years ahead have been used only since 2005.

Based on the experience gained so far, the Slovak Ministry of Finance believes that the following positive developments are worth highlighting during the application of the program budgeting technique.

■ The senior managers of the ministries have the political will to apply the method to all budget chapters.

■ The budget chapters are developed by the affected organisations themselves, in close cooperation with the Ministry of Finance. The Ministry of Finance set up a so called Budget Committee comprising of the representatives of organisations under six important budget chapters.

■ The Ministry of Finance was restructured with a view to strengthen the implementation of the budgetary reforms: within the so called public finance division of the ministry the Department of Budget Analysis was set up. The main task of this unit is to review the program based budgets developed by the individual chapters.

■ Utilising the experience of the past three years a schematic new budgeting methodology and the underlying macro-level planning framework were developed, and the budget is submitted to the Parliament based on programs. The Budgetary Information System²⁰

was developed to ensure the preparation, implementation, monitoring and standard IT management of program budgeting. Entities in charge of the preparation of the individual chapters can enter information about their own budgets into this system. The system is capable of presenting the expenditures for each program, or by economic or functional categories.

■ The above-mentioned macro-level planning method can forecast the expected changes in the GDP, as well as in the revenues and expenditures of the public finance system and the budget for four or five years. It is also able to provide an estimate for the economic classification of expenditures.

■ It is a very important element that the budgetary funds are not fully allocated to the chapters in the first stage of budgeting. Instead, the so called priority money is kept on a stand-by bank account, from which it is drawn during the budgeting process. The recipient and size of the allocated funds is decided by the cabinet on a purely political basis, as a result of which it becomes possible for appropriations depending on political priorities to be based on the program budgeting concept.

At the same time however, the mistakes committed during the first years and requiring correction, as well as the lack of a few elements of program budgeting are also noteworthy. In most cases these phenomena can be considered as the natural concomitants of the reform process, since it takes a longer time to successfully introduce the method and particularly to establish the required attitude. The problems, some of which were partially solved by the Budgeting Rules Act adopted in 2004, are the following:

- the relationship between the direction of the Government's strategy and the programs is not always obvious;
- although the 2005 budget was planned on the basis of multi-year experience, the resources that would be available in the future were often neglected;

- due to macro-level planning, there is a ceiling projected for the aggregate of public finance expenditures for one or more years, however such limit is missing at chapter level, which makes program budgeting more difficult²¹ ;
- the traditional and program budgeting approaches are still mixed: although the chapters are required to develop their programs, certain economic classification restrictions exist in relation to certain expenditures (e.g. wages), which are calculated on the basis of the expenditures of the previous year(s)²²;
- the figures for the given year and the projected figures to be submitted to the Government are prepared by two separate organisational units, using different methodologies (e.g. the figures are consolidated with different methodologies), as a result of which the current data are not consistent with the projected ones. On top of that, the projected ceilings for years $n+1$ and $n+2$ are not formally integrated into the budget planning and implementation process. Therefore, when year $n+1$ or $n+2$ becomes the current year, the former projections shall not mandatorily be applied during the compilation of the budget for the given year.

Similarly to the Ministry of Finance, other experts also concluded on the basis of experience gained in 2002 (and partially in 2003) that the definition of program objectives and the programming tasks arising from the new technique remained formal, and they meant nothing but extra tasks for the budget departments of the ministries. The introduction of the method was typically limited to the budget departments without the involvement of the senior officials of other professional departments. What is more, the issue was not addressed at the level of ministers representing the political management either. In order to

make the experiment successful, the ministry level political management should have directly participated in the application of the method, since this is the only level where the governmental priorities can be translated into actions and identifiable, measurable results or outputs. This problem is well illustrated by the expert conclusions reached at the Ministry of Transport, Posts and Telecommunications. This ministry developed the following main programs (consisting of several subprograms) for the years 2005–2007:

- Program No. 053 – Public Road Infrastructure
- Program No. 055 – Air Transport and Infrastructure
- Program No. 07S – Rail Transport
- Program No. 07T – Strategy building and application

Although this ministry has been involved in program budgeting for several years, it still cannot be claimed that the management of the ministry considers the program budgeting method as a tool capable of cost-effectively connecting the available resources with the desired strategy (objective, objectives). As a result, this method is not emphasised in the budgeting process. What is more, although program budgeting is a top-down process by its very nature, it seems to take place in the other direction within the ministry.

As we have already stated, program budgeting can be really effective if it is used in the entire governmental sector. The Slovak Ministry of Finance is well aware of this fact, and has also realised that in case program budgeting is used successfully, it becomes clearer where and how tax money is spent by the Government. And a budget that is transparent for the general public, too, strengthens the confidence in democracy, the long-term political benefit of which is beyond all doubts.

This is why – and of course learning from the negative experience – the Slovak Ministry of

Finance applied program budgeting as the main method of resource allocation already during the preparation of the 2005 budget. Within the programs, the Ministry gave a free hand to use resources except for a few mandatory items (e.g. wages). In addition, the Ministry also made it possible to take unused funds forward to the following years within the program.

Although on the whole program budgeting was introduced smoothly – taking into consideration the relatively short timeframe available for introduction – we would like to highlight two major aspects that must be given more attention if we want to make the public finance reform successful in Slovakia, and elsewhere:

- ① preferably all political parties should accept the reform strategy and harmonise it with the formulation of their political goals;
- ② the performance evaluation methods must be defined and applied much more specifically than today.

HUNGARIAN EXPERIENCES AND A PILOT APPLICATION

Local governmental experiences

With support from USAID, a complex program was implemented in the period between 1994 and 1999 under the title “The Modernisation of the Financial Management of Local Governments”, which aimed at the spreading of the program budgeting technique in Hungary. The program was executed by the New York based Urban Institute and the Hungarian Városkutatás Kft. Several US and Hungarian experts contributed to the program as advisors. The Hungarian advisors were responsible for adapting the US know-how to the conditions of the Hungarian reality. The participants of the program included Hungarian local governments, as well as the leaders and financial officials thereof.

In the first part of the program concrete expertise required for budget programming was transferred and taken over. This happened in the framework of systematically structured training sessions. In the preparatory phase not only the mastering of the “common language” and the transfer of knowledge was important, but it was the time when it was decided which of the participating local governments would start a partial or complete model experiment for the development of local program budgeting practices. The following towns participated in the model experiment: Szolnok, Szentes, Püspökladány, Hajdúszoboszló, Orosháza, Nagykanizsa and Tatabánya.

The most mature results were obtained in Szolnok, a town with county rank, and in the town of Szentes. For specific reasons, the experiment in Szolnok started in 1994, practically simultaneously with the start of the USAID program in Hungary. Preparation and the development of the IT conditions required three years. Experience showed that compared to the former planning methods, program budgeting enabled the town to slash its budgetary expenditures by 5% annually. However, this “saving” was “taken back” by the central resource regulation system, which sort of justified the local critics of the introduction of this method.

In the town of Szentes the experiment was a “greenfield investment” project, with no contentual background. Despite the fact that Szentes is a much smaller town, the process required a similar timeframe as the Szolnok experiment.

The experience of the Hungarian local governments *confirmed* the international experience. It was proven that it is easier to launch changes at the lower governmental levels, which can be explained by several factors. On one hand, at lower governmental levels there are considerable fewer tasks than at the central level, wherefore it is much easier to define the

introduction related tasks than at the level of the central government. On the other hand, interest can be raised much easier at local governmental level, and it is much easier to overcome conflicting interests. The Hungarian fiscal policy regularly ignored the local governmental sector, wherefore the financial managers at this level were forced to more intensely look for reserves. However, the Hungarian developments confirmed that the introduction of program budgeting is not irreversible. Not only were the processes of the Hungarian local governmental system unfavourable for the adoption of positive examples, but they even created conflicting interests therein and eroded the existing results.

Which were the *counter-acting* factors? We believe that they included the following:

- frequent changes in the tasks and the underlying legal conditions (professional regulations);
- unpredictability of the central resource regulation system;
- strengthening of the discretionary elements of financing;
- conflicting interests of the dominant political elite.

All these factors reversed the positive impetuses, and *generated conflicting interests* in relation to the practice of program budgeting.

Application of the program budgeting technique at the State Audit Office of Hungary

The utilisation of the audit capacity of the State Audit Office of Hungary (SAO) is mostly determined by the legal regulations. Each year a major task of the SAO is the completion of audit tasks at regular intervals as required by the legal regulations, such as: commenting on and auditing of the bill on the state budget and the final accounts, auditing of the utilisation

and accounting of subsidies allocated to the local governments from the central budget, auditing of the national news agency and the political parties. These legally prescribed, regular tasks absorb nearly 60% of the annual audit capacity – considering the average of several years.

However, apart from the regularity and comprehensive audits prescribed by the law – taking into account the limited capacities – the SAO performs more and more performance audits focussing on cost-effectiveness, efficiency and effectiveness. The SAO audits the implementation of tasks that are important and topical in the public finance subsystems and in the utilisation of treasury property for enhanced competitiveness, the more efficient operation of the public sector and the improved life quality of the population. Based on the figures of several years, these audits that are performed on the basis of the decision of the SAO's president absorb around 40% of the audit capacity.

Within the relevant legal frameworks and relying on its own strategy, in many cases the SAO itself can determine the subject, extent and methods of its audits, and may decide about the timing and nature of the audits; It is in the position to identify the outputs and outcomes of the work itself. As far as the evaluation of the outcomes is concerned, each audit is in a special situation, since the real outcome is “normal” operation. Hence, the outcomes can be predicted based on the quantification of expected losses and unutilised capacities. The outputs are the interim audit reports (auditor's reports) and the SAO reports that are the summaries of the auditors' reports. The content and formal requirements pertaining to such reports are defined in the SAO's internal regulations. In the case of reports that are prepared at regular intervals (pursuant to legal requirements), the performance indicators are determined without any major problem. The out-

comes of reports prepared pursuant to legal requirements depend less on the State Audit Office.

When compiling the annual audit plan, the free capacities to be allocated by the president of the SAO are also distributed. Based on the current legal requirements, performance audits are ordered by the president of the SAO within his own scope of power. The problem of the definition of the outcomes (to be more precise, the definition of the expected outcomes) is the most striking in this group of audits. In the case of the allocation of these capacities it is important to forecast the expected outcome. This can be well approached using the method of risk-based planning. The major financial risks of a time period can be revealed by means of appropriate background analyses. An example for this could be the absorption of EU funds at the proper level, or the potential sources of loss due to the involvement of the private sector (PPP) in the completion of public tasks.

In the course of compiling the budget by means of the program budgeting technique, the expenditures and various resources must also be identified in addition to the above elements. This task is not very difficult for the SAO. The direct costs linked to the outputs (reports) can be measured with the audit days, as well as with real costs linked to the preparation of the reports (paper, press, vehicle usage, etc.). The problem is caused by the spreading of indirect costs. If we narrow the mission of the SAO to the preparation of SAO reports, the solution may be the even distribution of these costs. However, this cannot be recommended for several reasons, some of which are presented below:

- as we could see, the SAO is mandated by law to perform routine tasks, while the audits ordered by the president of SAO require innovative approaches (see the performance audits, for example). This is why

the mechanical projection of costs would underestimate the resource needs of reports falling in the latter category;

- the consciously undertaken advisory role of the SAO is an independent output and result, wherefore several costs – that are regarded as indirect costs from the aspect of the audit – can be projected onto this activity as direct cost;
- furthermore, the mission of the SAO arising from its position is the improvement of the financial culture, in relation to which direct cost needs and related direct outputs can be defined;
- last, but not least, the maintenance of international relations can also be defined as a separate cost bearer.

When shifting to program budgeting within the State Audit Office of Hungary it must also be taken into account that the earmarked funds must fit into the system of budget chapters, and at the same time financing must be actually scheduled on the basis of performances and outcomes. For this purpose, it must be determined – in line with the so called top-down approach of strategic planning – what results should be achieved in order to implement the long-term strategy of the State Audit Office, and what outputs should be ensured for this purpose. One of the most difficult tasks is the definition of these outputs, since the defined outputs must be sufficiently concrete, they should preferably be measured with quantitative indicators, and in case their evaluation inevitably requires the use of qualitative indicators, such indicators be exact and comparable.

Once the outputs are available, it must be clearly and unambiguously determined which organisational unit is responsible for the implementation of the different outputs. This definitely requires the restructuring of responsibilities, if not the transformation of the organisational structure, since the responsibility for the

generation of the outputs must go together with the responsibility for financial management. The aim behind this is to make the head of the unit responsible for the generation of the output motivated in the optimum use of inputs required for the generation of the output, i.e. in the most cost-saving performance.

FEW SUMMARY COMMENTS AND PROPOSALS

If a government (or local government) decides to restructure its budgeting and introduce program and performance budgeting, it is inevitable that the government (local government) be aware of the theoretical background of the system, primarily building on microeconomic considerations. The system can be based on this, as well as on the decades-long experiences of many countries by paying utmost attention to the possible obstacles and the avoidance thereof.

Naturally, the question arises who might be interested in this shift and who might have conflicting interests. Since the effects are definitely positive at community level and in the long run, the success of the reform can be regarded as public interest. Just like in the case of any public interest, the question is raised how to articulate it in a way to make the decision-makers realise that they should at least try the introduction thereof. In order to answer this question it is worth analysing the current social situation, the concrete political arena, and approaching the issue by way of a game theory analysis, for instance.

Experience shows that the possibility of introduction arises when and where the economic problems arising from inefficient public administration (among other things) become tangible. When things are coming together, budgetary discipline is much more likely to become lax than stringent and rationalised. Of

course, this will produce a counter-effect, which will then create favourable conditions for the political consensus required for introduction.

The lesson is that there is no universal recipe, each country and each local government must tailor the structure – which is in general adequate for the model – to their own needs and conditions.

A structure that exactly corresponds to the theory (model) can be developed only in exceptional cases (such was more or less the public finance reform in New Zealand), and generally when the negative effects arising from poor efficiency are too big and perceptible. Even then, special conditions must exist (e.g. small country, not too complex public administration and state administration, etc.)

The methods applied in reality are mixed methods from the theoretical point of view. This is not a problem, since especially thereby, through the rational consideration of reality and the possibilities will they be viable and able to induce positive effects.

We find it desirable to apply this method in the Hungarian budgeting practice²³. The underlying reasons are manifold. They include the condition of the entire public finance system, the constraints arising from nominal convergence, as well as the adequate absorption of EU funds (especially those of the regional development and cohesion funds).

We do not believe that these efforts are free from conflicts and setbacks. However, it is important to make sure that the experiments are started in the appropriate public finance segments. Therefore, this system is first of all recommended to be introduced at chapters having great independence and well defined, predictable tasks in the field of the state budget, like the State Audit Office.

The shift to program budgeting can be an important and reform-scale step. However, one must not believe that this budgeting technique

is a wonder drug that cures all budgeting problems. Effective state reform also requires the reconsideration of state tasks, the observance of constitutional guarantees, and the review of acts on the large supply systems. However, in strengthening the budgetary discipline an important role could be attributed to program budgeting. In order to achieve the set objectives and minimise setbacks known from the international experience²⁴, certain conditions must be met.

The most important is that the current public finance act should be replaced with modern and constitutional regulation. The description of the content of this act is beyond the frameworks of this article, wherefore we only refer to the fact that the new act should definitely integrate public finance information questions – some of which are currently regulated only in government decrees –, and the entire budgeting and final

accounting schedule must be revised. A sensitive point of this technique is the creation of the necessary information basis and its opposition to the current interest relations. Below is the SWOT matrix of the system's introduction, which gives a good estimate about the expected costs and benefits. (See Figure 3)

It is equally important, and the strength of threats described in the T = threats field of the SWOT matrix can be reduced if the society's low tax consciousness is improved and the fiscal illusions are dispelled. The political discourse is fundamentally affected by the fact how much or how little the general public knows about the actual costs of the various public services. If by dispelling the fiscal illusions we manage to make the society accept the need for a public finance reform, and within that, the use of the program budgeting method, a multilateral consensus is reached almost automatically, since the consensus of the general

Figure 3

SWOT MATRIX OF THE INTRODUCTION OF PROGRAM BUDGETING

<p>S = Strengths</p> <ul style="list-style-type: none"> • elimination of the baseline budgeting principle, • clear establishment of priorities, • considerable reduction of the possibility of political voluntarism, while the conditions could improve for exercising the budgetary rights substantially, • supporting the radical restructuring of expenditures, • improvement of the conditions for the successful provision of public tasks, • improvement of the conditions for making politicians and civil servants accountable. 	<p>O = Opportunities</p> <ul style="list-style-type: none"> • development of real cost consciousness in the public sector, • creation of the harmony between public policy priorities and budgetary expenditures, • elaborate and scheduled introduction, • better public services even in case of decreasing budgetary centralisation in the medium and longer run.
<p>W = Weaknesses</p> <ul style="list-style-type: none"> • there are no immediate savings, • additional costs are incurred in the initial phase, • it is not suitable to be applied in all fields of public service. 	<p>T = Threats</p> <ul style="list-style-type: none"> • political resistance, first of all by supporting the so called “annuity hunting” lobbies, • resistance by the civil servants in order to maintain the asymmetry of information, which is so beneficial for them, • failure of introduction without adequate legal and information foundations, • rush introduction may discredit the technique.

public would practically force the political players to reach an agreement in this issue. The elimination of fiscal illusions would also eliminate the possibility to generate political capital by building on such illusions.

In support of the above written I hereby cite the following quotation: "... reforms that have been most brilliantly designed and prepared from the professional aspect can fail, too, if the reformers and responsible decision-makers do not communicate with the citizens during the introduction of the reform. We believe that

only those proposals can be successful that offer clear, custom-made options to the citizens supported with a cost-profit analysis understandable at the level of the individuals, too."²⁵

In summary: careful and gradual introduction is the precondition for successful reforms. Introduction may start with pilot programs that could be implemented in conjunction by the Ministry of Finance and the SAO, and the latter could continuously analyse the experiences.

NOTES

¹ Tanzi, V. (1997): *The Changing Role of the State in the Economy: A Historical Perspective. IMF Working Paper*; Tanzi, V. (1998): *Fundamental Determinants of Inequality and the Role of Government. IMF Working Paper*; Tanzi, V. (2000): *The Role of the State and the Quality of the Public Sector. IMF Working Paper*

² For more details see Vigvári (2002): *Közpénzügyek, önkormányzati pénzügyek, KJK-Kerszöv* (Public finances, local governmental finances)

³ The literature on the topic includes the following fundamental works: Wildavszky, A. (1975): *Budgeting. A Comparative Theory of Budgetary Processes. Little and Company, Boston-Toronto*; Wildavszky, A.–Caiden, N. (2001): *The New Politics of the Budgetary Process. Fourth Edition. Addison Wesley Longman, New York*; Diamond, J. (2003): *Performance Budgeting: Managing the Reform Process, IMF Working Paper, Fiscal Affairs Department, Washington, D.C.*

⁴ Cangiano, M. (1996): *Accountability and Transparency in the Public Sector: the New Zealand Experience, IMF Working Paper*; The Treasury (Ed. Bí: Horn, M., 1996): *Putting it Together, Wellington: Government Printer*; Somogyi-CS. Á. (2000): *Piaci viszonyok az állami bürokráciában – Avagy az új-zélandi államháztartási reform esete. Szakdolgozat, Budapesti Közgazdaságtudományi Egyetem* (Market conditions in state bureaucracy or the reform of the public finance system in New Zealand. *Thesis, University of Economics, Budapest*)

⁵ In other words, which are more characterised by possible exclusion and rivalry.

⁶ In New Zealand an election term is only three years long.

⁷ This was not explicitly stated like this. Instead it was said that the state should refrain from trading activities, and should rather create competitive markets, and should efficiently and carefully manage the remaining state functions.

⁸ And the emphasis here is on purchase, since it indicates that it involves output financing instead of input financing.

⁹ Crown entities are organisations that are controlled by the government (most often as the owner), but are not state companies. Crown entities include such diverse organisations like central research institutions, hospitals, the National Film Committee, the New Zealand Tourism Board, the New Symphonic Orchestra, the Human Rights Committee, etc.

¹⁰ Strategic Result Areas

¹¹ Vote Ministers – Responsible Ministers

¹² This is called Vote. This means that (one or more) Votes are owned by healthcare, national defence, Maori issues, immigration, etc.

¹³ Accrual Accounting (This method is called Generally Accepted Accounting Practice in New Zealand)

- ¹⁴ It must be noted that New Zealand was the first country in the world to introduce the method of inflationary objective (in 1989).
- ¹⁵ The Basic (Organic) Act on budget laws more or less corresponds to the Hungarian act on public finances.
- ¹⁶ The transformation of the system of internal audits – which is of high importance – has not been fully completed.
- ¹⁷ Mordacq, P. (2005): Financial Management and Audit Practices. The French Ongoing Reform. Presentation to the World Bank Seminar, *Dead Sea Hotel, Jordan, 20–23 June, 2005*
- ¹⁸ In 2004, one of OECD's working committees put the topic of performance information on the agenda again. See Mrs. László Hamza's and Ételka Bécsi's report on the conference summarising the results and lessons of the investigation in this issue of the *Public Finance Quarterly*
- ¹⁹ This loan can first of all be used for institutional development, technical assistance, as well as for budget planning and governmental financial management training. The project supported by the loan is titled: Public Finance Management Reform Project (PFMRP).
- ²⁰ Budgetary Information System (BIS)
- ²¹ This would be important because the ceiling of the individual chapters and partial budgets cannot be determined by the organisations belonging to the respective chapters, since the number of applications for funds is theoretically unlimited. However, the partial ceilings that are determined by the Ministry of Finance with regard to the macro-level limit should be forwarded to each budgetary organisation.
- ²² The problem with this is that if expenditures are planned independent of the programs, the performance based approach fully disappears, since there is no relationship between the used inputs and the objectives targeted by the program, which should be the main reason for the application of the method. Of course, the budgetary expenditures can also be presented by economic and functional categories, but only after they are planned with the program budgeting technique.
- ²³ The State Audit Office of Hungary has called for the need for changes in several of its reports. See for example: ÁSZ (2005): Report on the activities of the State Audit Office of Hungary in 2004, page 14, pp 80–81. The Research and Development Institute of the SAO has also processed the literature of this field, the experiences related to its application in detail, and published it on the SAO's website for professional debate. See Báger G.–Vigvári A. (2005.): A programköltségvetés elméleti alapjai és alkalmazásának nemzetközi tapasztalatai. (The theoretical basis and international experience of the application of program budgeting)
- ²⁴ In the United States budgetary reform efforts have been made three times (at the beginning of the 1950s, 1960s and 2000s). All three efforts were followed by the restoration of the former order.
- ²⁵ Csontos L. – Kornai J. – Tóth I. Gy. (1999): Adótudatosság, fiskális illúziók és az egészségbiztosítás reformjával kapcsolatos vélemények, *Tárki, Budapest*, <http://www.tarke.hu/adatbankh/kutjel/pdf/a195.pdf> (Tax consciousness, fiscal illusions and opinions on the reform of the healthcare system)